Austria	[illegible]	Indonesia	[illegible]	Pakistan	[illegible]
Bahrain	[illegible]	Iran	[illegible]	Philippines	[illegible]
Belgium	[illegible]	Israel	[illegible]	Poland	[illegible]
Cyprus	[illegible]	Italy	[illegible]	Portugal	[illegible]
Czech	[illegible]	Jordan	[illegible]	Qatar	[illegible]
Denmark	[illegible]	Korea	[illegible]	S.Arabia	[illegible]
Egypt	[illegible]	Kuwait	[illegible]	Singapore	[illegible]
Finland	[illegible]	Lebanon	[illegible]	Spain	[illegible]
France	[illegible]	Lux	[illegible]	Sweden	[illegible]
Germany	[illegible]	Morocco	[illegible]	Switz	[illegible]
Greece	[illegible]	Neth	[illegible]	Thailand	[illegible]
Hungary	[illegible]	Nigeria	[illegible]	Tunisia	[illegible]
Iceland	[illegible]	Norway	[illegible]	Turkey	[illegible]
India	[illegible]	Oman	[illegible]	UAE	[illegible]

EUROPE'S BUSINESS NEWSPAPER

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Monday November 18 1991

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SURVEY
Mergers and acquisitions
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World News

China makes concessions to Baker but not on rights

US Secretary of State James Baker announced a series of modest concessions from China on key issues including trade and arms proliferation but said he remained unhappy with Beijing's stance on human rights. Page 16

Duke loses Louisiana
Former Ku Klux Klan leader David Duke lost heavily to Democrat Edwin Edwards in his bid to become governor of Louisiana but sore points he raised could surface as issues in next year's presidential race. Page 16

Farm deal expected
An accord on farm trade between the EC and the US, aimed at relaunching stalled world trade talks, could be ready by the end of next week, EC commission president Jacques Delors said in Paris.

Hope for hostages
A breakthrough in the Beirut hostage saga appeared near as a Tehran newspaper said Church of England envoy Terry Waite and an American captive would be freed soon.

Poison factory fear
Libya is building a second poison gas factory, similar to its existing plant at Rabta, according to German press reports. Page 4

Hint to Mitterrand
French voters support constitutional reforms proposed by President François Mitterrand but believe he should practise what he preaches by quitting early, an opinion poll showed. French budget, page 2

Latvian honeymoon over
Latvia's main political force ended its first post-independence congress amid a growing sense that the political honeymoon in the newly-independent republic is over. Page 3

Iraq evicts Kurds
Iraqi soldiers evicted thousands of Kurds from villages in northern Iraq, according to refugees and UN officials.

Landslide for Rao
Indian prime minister Narasimha Rao won a huge majority in the parliamentary seat which he needed to win to stay in office. Page 4

Kenya accuses US
Relations between Kenya and the US deteriorated sharply as Kenya accused US diplomats of "master-minding" the country's opposition movement. Page 4

Kuwait army doubts
The Kuwaiti commander of joint Kuwait-US military exercises in the emirate conceded that Kuwaiti armed forces would not be ready for combat on their own for the foreseeable future. Page 4

Township murders
Two men and a woman died in a township near Johannesburg after gunmen armed with AK-47 assault rifles fired at their vehicle. It brought the weekend death toll to seven.

N-plant fire hazard
Bulgaria's troubled nuclear plant at Kozloduy, plagued by radioactive leaks and failures, is also a fire hazard, German ecologists said.

Executioner returns
Son Sen, high executioner during Cambodia's Khmer Rouge "Killing Fields" years, returned to Phnom Penh, the capital he helped to empty of people at gunpoint in 1975. Page 6

Franco remembered
Thousands of ultra-rightists thronged central Madrid to pay tribute to the late dictator Francisco Franco, who ruled Spain for three decades. Police made a number of arrests.

Business Summary

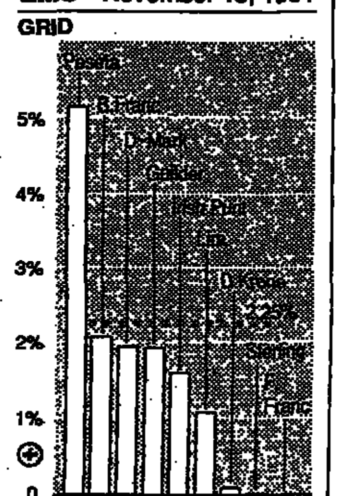
Germany's economic policy faces IMF censure

The IMF is set to criticise Germany's handling of its economy, especially its mounting budget deficit, according to Bundesbank president Helmut Schlesinger.

The IMF's forthcoming annual report will comment on the global side-effects of German policy, notably the increased demands on international reserves, and will press the government to reduce state subsidies. Page 16

EUROPEAN Monetary System: The Spanish peseta remained at the top of the grid last week despite a small cut in money market rates by the Bank of Spain. Sterling fell to the bottom of the system as talk of an early cut in interest rates depressed sentiment. But the D-Mark continued to strengthen amid speculation that the Bundesbank could soon tighten monetary policy. Currencies, Page 31

EMS November 15, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

FRENCH government will sell some holdings in state-owned insurance companies as part of its partial privatisation programme. It owns more than 70 per cent of two insurers and holds a 65.7 per cent stake in the country's biggest insurance group. Page 17

RUSSIAN president Boris Yeltsin has taken his first real steps towards a market economy, including plans for a convertible rouble. Page 3

INSURANCE: Royal Insurance and Eagle Star of the UK, both hit by losses from mortgage indemnity insurance, have had their financial strength ratings cut two notches by Moody's Investors Service, US credit rating agency. Page 17

CONTINENTAL Airlines, bankrupt US carrier, is to sell a large portion of its operational assets at LaGuardia, New York's domestic airport, plus six slots at Washington National airport, to USAir in a $61m deal. Page 19

US CAR market: Fiat and Chrysler have ended a three-year joint venture in the US for the distribution of Alfa Romeo cars in the North American market. Page 19

BRENT Walker, troubled UK leisure and property group, is expected finally to publish restructuring proposals, designed to rescue the business. Page 17

REPSOL, state-controlled Spanish oil and gas conglomerate, made net profits of Pta54.91bn ($538m) in the first nine months of 1991, a 1.8 per cent rise on last year. Page 19

Market fall reflects ebbing economic confidence

Bush seeks to calm Wall Street nerves

By Patrick Harverson in New York and Michael Prowse and Lionel Barber in Washington

THE BUSH administration moved yesterday to calm US financial markets as concern mounted over how investors will react this morning to Friday's sharp fall in New York stock prices.

The credit crunch as scapegoat ....Page 36
Anthony Harris ....Page 16
Observer ....Page 14

As President George Bush came under increasing political fire over the flagging US economy, Mr Nicholas Brady, treasury secretary, attacked Congressional moves to place limits on credit card interest rates for borrowers – one of the issues behind Friday's 120-point drop in the Dow Jones Industrial average of US stocks.

Speaking in a television interview, Mr Brady attacked Congressional legislation to cap credit card rates as "whacky" and "senseless". Only last week, Mr Bush called for lower credit card rates to encourage consumer borrowing and stimulate the economy. But financial markets have become concerned that a Congress-imposed limit on rates might tighten the credit squeeze on consumers, harm bank profits and push the economy back into recession.

Mr Brady said caps on credit card rates would force banks to withdraw credit cards for millions of middle-income Americans. "It is elitist legislation," he said, "it makes absolutely no sense."

The stock market is likely to remain jittery today. Friday's fall was the fifth biggest in Wall Street history, and appears to have been prompted by concern about the outlook for the US economy and corporate profits as well as the proposed credit card cap.

Dealers also cited political upheavals in the Russian republic to explain the fall, which occurred when a wave of computerised sell programs was triggered by heavy selling in the derivatives markets.

President Bush said at the weekend he would be watching the markets closely today, but believed that there was "no reason to get all concerned" about the sell-off.

However, investors will be worried that the New York market has further to fall. Some stock traders have warned that there was an overhang of sellers on Friday night after the market closed, and that institutions and individual investors who were unable to sell on last week would dump stocks as soon as the market opened today.

Friday's fall in part reflected ebbing confidence in the Bush administration's handling of an economic downturn that is proving deeper and longer than expected.

It was seized on at the weekend by the president's leading Democratic critics, including Governor Mario Cuomo of New York, who is considering a bid for his party's presidential nomination. Mr Cuomo said the stock market fall showed the economy was "crippled in a fundamental way" and that the president and Congress should work out a national economic growth plan.

The president's pressure for lower credit card interest rates followed weeks of bickering within the administration about the pros and cons of a fiscal "growth package" and pressure on the Federal Reserve to lower interest rates.

Investors are well aware that if the economy does begin to contract again, the administration has little ammunition left.

The discount rate is at its lowest rate for 18 years while an expected budget deficit of $350bn appears to rule out substantially higher borrowing. Pressure for "temporary" tax cuts, however, may grow.

Most forecasters have already sharply revised down growth figures for the current quarter – from 3 per cent a few months ago to about 1.5 per cent or less.

But the mood seems to be growing steadily more gloomy: few economists are any longer willing to rule out a "double dip" recession involving another fall in GNP.

The controversy over credit card interest stems from concern that high rates are holding back consumer spending and diminishing the chances of a strong recovery.

Last week, after the president called publicly on the banks to lower their rates, the Senate approved an amendment to a banking bill that would limit the interest rate banks could charge credit card customers.

There are doubts, however, whether the Senate amendment will be passed into law.

Continued on Page 16

Spain threatens veto at Maastricht

By Peter Bruce in Madrid

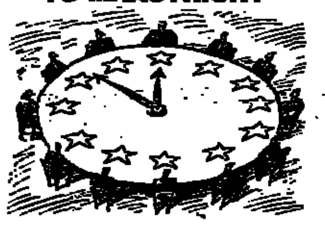
SPAIN IS threatening to veto the adoption of a new European Community treaty in Maastricht next month unless its proposals for reforming the EC budget and spending are accepted in a binding form by the rest of the Community.

The threat comes days before Mr Ruud Lubbers, the Dutch prime minister and EC president, arrives in Madrid for final talks with Mr Felipe González, the Spanish prime minister, before Maastricht. Mr Lubbers may seek ways of satisfying Spanish demands without altering the treaty on monetary and political union to be agreed at the EC summit.

Spanish officials were angered when last week's meeting of foreign ministers in the Netherlands rejected all its budgetary proposals and suggested they might be contained in a non-binding "solemn declaration" annexed to the new treaty.

Mr Carlos Westendorp, secretary of state for the European Community and Spain's chief EC negotiator, told the FT at the weekend: "Without a satisfactory solution I would be obliged to block [the treaty]. We have been saying the same thing for two years but no one has paid any attention to us."

COUNTDOWN TO MAASTRICHT



Defence scrutinised ..Page 2
A to Z guide to the big debate ....Page 8
'Good Europeans' face stiffest test ....Page 15

He would not say whether Madrid would accept binding promises to meet its demands outside the treaty. "We are adults. We know what a solemn declaration would mean. But what we are doing here is reforming the treaty and we Spanish are having to accept some changes with great difficulty. We need something legally binding and that means it has to be in the treaty."

Madrid sees the summit as its last chance to overturn serious imbalances in the way the Community's finances are structured. Having joined in only 1986, the Spanish have been unable until now to change the terms on which they became EC members.

The nub of Spain's problem is that while its average per capita income is 78 per cent of the EC average, it will next year become a net contributor to the EC budget. Using the principles of "cohesion" – more money for poorer members – enshrined in the 1986 Single Act, it is pressing for:

● A shift in the sourcing of EC revenue towards progressive taxation, so that budget contributions reflect the ability of countries to pay. Some 80 per cent of the budget comes from receipts of value added tax, a levy based on consumption, and since Spaniards spend a relatively high part of their income the Spanish VAT contribution is higher than the EC average. Mr Westendorp wants "a system that takes into account the relative wealth of each country".

● More "flexibility" in EC spending. Madrid wants the Community to take on a larger proportion of the funding of assisted projects. EC outlays of structural funds in the poorest regions have to be matched by a contribution from national government spending. But Spain says it is having difficulty matching EC transfers as it is trying to rein in spending to meet other EC economic policy requirements.

● Reuters adds: Some two thirds of Swiss people favour full membership of their country in the EC, according to an opinion poll yesterday in the weekly SonntagsZeitung.

Major urged to adopt tough stance against EC integration

By Ralph Atkins in London

PROMINENT Euro-sceptics in Britain's Conservative party warned yesterday that their backing for Mr John Major, the prime minister, would depend on a firm stance against European integration at next month's Maastricht summit.

Fears voiced by senior Conservatives stopped short of presaging a significant revolt by Tory MPs in the two-day House of Commons' debate on Europe which starts on Wednesday but gave advance notice of splits that could erupt after Maastricht.

Cabinet ministers, meanwhile, are expecting Mrs Thatcher to speak during the debate, setting out her opposition to a single currency and signalling her willingness to vote against the government if the Maastricht agreement goes to far. Speaking in Los Angeles at the weekend, Mrs Thatcher opposed the surrendering of control over economic policy to Brussels.

"Groups of nations put together artificially will not have sufficient identity to stay together and they will collapse," she added.

Opposition by some Tories appears to have been assuaged by the wording of the government's motion. The pro-European stance of the opposition Labour party has also persuaded some that to vote against the government because it was too positive on Europe could backfire, boosting instead the opposition's electoral chances.

Mr Cecil Parkinson, former party chairman, said in a television interview Tory MPs could face "an enormous dilemma." But he predicted Mr Major would not sign a treaty on political union at Maastricht because the problems to be overcome were too great.

He said Mrs Thatcher opposed a single currency, "but she wants to give her successor the support she felt she never got from her predecessor [Edward Heath]."

Mr Nigel Lawson, the former chancellor of the exchequer, said: "The government will have a very keen sense of what the Conservative Party will be prepared to accept."

His concern was echoed by Mr Norman Tebbit, former party chairman, who wrote in the Mail on Sunday: "Any government – or party – which forgets that its power is held only in trust from the people and gives that power away will sooner or later suffer a terrible retribution."

Refugees leave the destroyed town of Vukovar after the longest siege in Europe since the Second World War

Vukovar falls to Serb forces

By Judy Dempsey in London and Quentin Peel in Bonn

THE Croatian authorities yesterday admitted that the eastern city of Vukovar, under siege for 86 days, had fallen to the Serb-dominated federal army.

The end of Europe's longest siege since the Second World War coincided with the intensification of diplomatic moves to halt the fighting, as a prelude to the possible deployment of UN peace-keeping forces in Croatia.

"The biggest part of the town is in army hands," said Mr Kresimir Macan, the information ministry spokesman of the breakaway republic.

"There cannot be any military way now for Croatia to save Vukovar."

Tanjug, the Yugoslav news agency, said: "The last obstacle for the liberation of Vukovar has been removed."

Mr Macan said the city would surrender officially only if the federal army guaranteed the safety of its 14,000 civilians, which includes 2,000 children. "We are worried about what they [reservists] will do to the people. We can expect the worst. They have no command over them," he added.

The collapse of Vukovar is likely to undermine the authority of Mr Franjo Tudjman, the president of Croatia, who vowed to protect the city.

On the other hand it will boost the morale of the federal army, which was criticised by Serbia for incompetence in capturing this former Habsburg city on the river Danube, and consolidate the territorial

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THE MONDAY INTERVIEW

"Nothing helps the climbers more than the sight of the summit. There will always be plenty who say 'we can't stop now'". Kurt Biedenkopf, prime minister of Saxony, on the struggle to win east German support

FT SURVEYS THIS WEEK

DENMARK: Confidence returns as the economy strengthens.
(Tuesday's survey)

EC row looms over electronics industry

By Andrew Hill in Brussels

THE debate over how far the EC should intervene in the field of industrial policy will be given another stir today when industry ministers meet in Brussels.

A resolution aimed at increasing the competitiveness of EC electronics and computer makers will be put to ministers. The resolution itself – which would encourage the exchange of information about the international industrial situation – is uncontroversial.

But France, Germany, the Netherlands and Italy see it as a step towards a more aggressive Community approach in support of the EC electronics industry, which faces fierce competition from Japan.

Increased Community involvement in industrial policy is one of the most contentious issues in the negotiations over European political union. The debate was given fresh impetus at the weekend with news that the Commission might include an "industrial reconversion fund" in a reformed EC budget. Britain, in particular, would oppose any attempt to subsidise ailing industrial companies.

Also at today's meeting, Sir Leon Brittan, the competition commissioner, will be questioned by French and Italian ministers about the Commission's controversial decision last month to block a Franco-Italian takeover of de Havilland, the Canadian aircraft maker owned by Boeing of the US.

Mr Brian Mulroney, the Canadian prime minister, condemned Sir Leon's intervention in an interview published in Le Monde on Saturday. "It's regrettable that a bureaucratic decision caused efforts the Canadian government was encouraging to fail," he told the French daily, and urged Aérospatiale, the French partner in the takeover, to "stay in the race one way or another".

Both France and Italy, however, have tempered their fury since the end of last month, when it emerged that Aérospatiale and Alenia, the Italian manufacturer, were working on alternative plans to support de Havilland.

Europe's space shuttle faces uncertain future

By Clive Cookson, Science Editor

EUROPE'S future in space will be decided at a ministerial meeting of the European Space Agency starting in Munich today. The issue is whether the ESA can afford an independent manned space programme for Europe.

The main argument surrounds the Hermes manned shuttle, intended by France as the centrepiece of European space autonomy. Its estimated cost has risen 40 per above the original budget of Ecu4.4bn ($5.5bn). Last week, German Chancellor Helmut Kohl and French President François Mitterrand agreed a final decision on Hermes should be postponed a year. The time would be used to identify further cost savings and to seek new partners, possibly the Soviet Union.

French officials say additional cuts would kill Hermes, whose first launch has already been put back from 1998 to 2002.

Mr Jean Marie Luton, ESA director-general, will also ask ministers to approve long-term plans for the following:

● Columbus, Europe's contribution to the US-led Freedom space station. It consists of a manned laboratory for the space station, a free-flying unmanned laboratory orbiting close to Freedom, and an unmanned *Polar Platform* satellite carrying remote sensing instruments in a different orbit. Columbus is also behind schedule and over budget – partly because the Freedom project has been delayed by funding and management problems at Nasa, the US space agency.

● Ariane, the European commercial satellite launcher. ESA is developing Ariane-5, a powerful new version scheduled for a maiden flight in 1995 and which will eventually be used to launch Hermes.

● Space science. ESA plans unmanned missions to study the sun, Saturn and its moon Titan, and to bring material from a comet back to Earth.

The main participants in the Munich discussions will be France and Germany, which are contributing 30 per cent and 25 per cent respectively of this year's Ecu2.9bn ($3.62bn) budget. Italy will also have an important influence, with its 18 per cent contribution.

Britain, which contributes only 6 per cent, will be on the sidelines.

ESA to explore options on Soviet collaboration

By Quentin Peel in Bonn

THE options for closer collaboration with the Soviet Union, or with Japan and the US, will be debated in the European Space Agency meeting.

The chairman, Mr Heinz Riesenhuber, the German minister for research and technology, said: "There is a chance to widen our co-operation, which two years ago was not imaginable" – a clear reference to the possibilities of collaboration with the Soviet Union.

He said other partners could be brought fully into the 13-nation ESA, and a different pattern of burden-sharing might be worked out. Pressure has been building up in Germany to pull out of the Hermes manned shuttle programme.

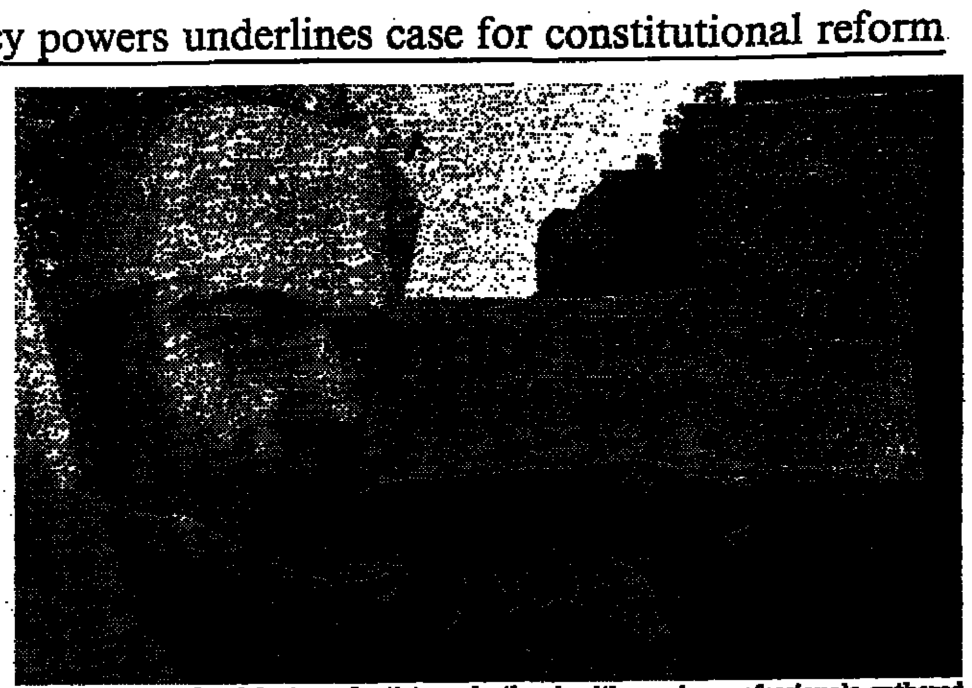
Mr Riesenhuber said he could not exclude the possibility of combining the Hermes programme with the development of the Soviet Buran space shuttle, which has already had a successful unmanned flight.

"I am not sure the Soviet Union can, in its present condition, take its own work further on Buran," he said. "We do not know how it will organise its future programme. But these are the sort of questions which must be investigated."

Use of emergency powers underlines case for constitutional reform

Deputies denied vote on French budget

By Ian Davidson in Paris



Tens of thousands of doctors, dentists and other health service professionals gathered in Paris yesterday to protest against the French government's health policy, Alice Rawsthorn writes. The demonstration, which, according to the organisers attracted 500,000 people, stretched for 3.5km, although police say only about 60,000 took part.

THE case for a restoration of parliamentary authority and legitimacy in France, lately proposed by President François Mitterrand in his suggested package of constitutional reforms, has been further strengthened by the weekend spectacle of a national budget adopted without a vote in parliament.

The French Socialist government of Prime Minister Edith Cresson does not command an absolute parliamentary majority, and early on Saturday it used the emergency powers of the constitution to push its FFr1,330bn (£134.5bn) budget for 1992 through the National Assembly without a vote.

Under these provisions, the government is able to ram through legislation without a vote, by challenging the opposition to table a censure motion which in theory could bring the government down.

Today the conservative opposition parties will formally respond to this voteless decision by tabling a censure motion, even though they know it will be defeated because the communists have already indicated that they will not vote for it. If the government were to be defeated and forced to call early elections (ordinarily not due until 1993), the small communist group in parliament could expect to be further decimated.

But the futile gesture of an opposition censure motion is an additional indication of frustration at the impotence of the country's parliamentary institutions.

That frustration is also mirrored in opinion polls showing growing popular disaffection with the national political process.

Because of its lack of a majority, the Socialist government has been forced to dodge and weave in securing its legislation since the 1988 elections. But the resort to the emergency provisions of the constitution has become more frequent every year.

The case of this year's budget, which has been rammed through almost without a single vote, has reached scandalous proportions.

Burgundy prices fall sharply for second year

By Edmund Penning-Rowsell in Beaune, France

FOR the second year running prices fell sharply at yesterday's Hospices de Beaune wine auction in France – the first indication of the quality and price level of the latest vintage.

The average price per cask of the 27 red cuvées was FFr22,051 (£2,230) – 25 per cent lower. The top price of FFr54,000 a cask was made for the new cuvée Georges Kritter Clos de la Roche.

Prices for the white dropped even more heavily, averaging FFr29,000 a cask, a fall of 44.25 per cent. The highest figure was FFr52,000 for the cuvée Corton Charlemagne François de Salin.

The total paid for 768 casks was FFr12,552,000, compared with FFr21,578,000 last year for 663 casks and FFr29m in 1989.

The results will please hard-pressed local wine merchants more than the Hospices de Beaune charity and will certainly lead to lower prices for the finer burgundies of recent vintages.

European defence under scrutiny

By Quentin Peel in Bonn and Robert Mauthner in London

FOREIGN and defence ministers of the nine-nation Western European Union (WEU) will today try to bridge their differences over how to formulate new defence arrangements for Europe and how these will relate to the 12-member European Community and to Nato.

A clear division remains between leading members on how a revitalised and reinforced WEU should link the Nato alliance and the political arm of the EC.

France and Germany have proposed a framework in which the WEU will fall under the umbrella of European political union. Britain, Italy and the Netherlands favour a structure where it is simply an autonomous "bridge" between Nato and the EC.

All the members seem to be agreed on the creation of some form of multinational European corps, but Britain and Italy want it to be used solely for operations outside the Nato area – thus complementing the Atlantic Alliance.

Germany and France have suggested a corps which might operate both inside and outside the area, although how remains unclear. German troops would remain under Nato command, while French troops, which have not been part of the alliance's integrated command structure since 1966, would not.

Britain, in particular, insists that no European political and military structure should be set up which would duplicate Nato's overriding responsibility for European defence, a role reconfirmed at the Nato summit in Rome this month.

However, Nato's Rome Declaration gave equal prominence to the central role of Nato in assuring Europe's security and the need for a new European defence identity, leaving open the latter's precise relationship with the EC and Nato.

The two groups of countries are also split on whether the ministers should agree to define the details of the future role of the WEU before next month's EC summit at Maastricht, or whether it should be spelt out only in the light of Maastricht's conclusions.

France and Germany argue that the WEU declaration should be drafted only within the political union framework defined in Maastricht. Britain says that only if the WEU's role is agreed in advance will the UK government be able to subscribe to a significant defence component in the political union treaty at the EC summit.

However, the decision may well be reached by default, with France and Germany saying that only their leaders – President François Mitterrand and Chancellor Helmut Kohl – can decide the issue at the final hour. The suggested compromise is that the defence declaration should be finalised in the wings of Maastricht, and issued simultaneously.

"It is the intention of Germany, France and even others that the WEU will form an integral part of the political union," the Bonn Foreign Ministry said.

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CONTRACTS & TENDERS

INTERNATIONAL NEWS

Yeltsin takes first market economy steps

By Leyla Boulton in Moscow

RUSSIAN President Boris Yeltsin has taken his first real steps towards a market economy, including plans for a convertible rouble, as the Group of Seven deputy finance ministers today renew attempts to persuade Soviet republics to take on joint responsibility for a foreign debt of more than $60bn.

Decrees by Mr Yeltsin published at the weekend set the legal foundation for an internally convertible currency, abolish import restrictions and establish Russia's control over the extraction and sale of hard currency-earning resources on its territory.

While it is not clear what the Moscow meeting on debt will achieve (it will involve observers from the Baltic states for the first time), Mr Yeltsin has served notice he will pursue his own economic reforms with or without other republics.

Russia's decree on liberalising foreign economic activities sets the scene for internal convertibility; this requires Russian enterprises to buy and sell their hard currency at free market rates and makes it easier for foreign companies to convert and repatriate profits.

But internal convertibility falls short of full convertibility in that currency cannot be exported for investment abroad. Its success also depends on a large foreign currency reserve so authorities can intervene to stabilise the exchange rate. This will no doubt be brought up with potential western donors soon, possibly during Mr Yeltsin's visit to Germany this week.

Even though raising money for imports will still be a problem, the new decree says any enterprise in Russia can engage in import-export business without registering with authorities – the final blow to the state's long disintegrating monopoly on foreign trade.

Mr Yeltsin ruled as not applicable to Russia the fixed exchange rates of Gosbank, the withering central bank, which feature a commercial rate of Rbs1.7 to the dollar for Soviet enterprises and Rbs47 to the dollar for tourists. Paradoxically the decree aimed at filling shops with goods during a hard winter is also likely to cut back output of Soviet enterprises, which will be unable to afford free market rates to buy hard currency they need to import components.

In a move likely to alarm some republics and speed moves by others to set up their own currencies, the Russian leader declared Russia was "assuming authority" over the country's rouble printing presses, which all happen to be in Russian cities. This will fuel suspicions that Mr Yeltsin, who has already indicated Russia may introduce its own currency, plans at least to control money supply unilaterally, without waiting for a banking union with other republics.

Mr Yeltsin promised to prepare by December 10 unspecified measures to "protect" Russian interests against republics which plan to introduce their own currencies – such as Ukraine and the already independent Balts.

How will Russia finance currency liberalisation?

Leyla Boulton on the unanswered questions surrounding Yeltsin's measures

A KIOSK on a Moscow thoroughfare, bulging with imported goods from sportswear to contraceptive pills, displays a cheerful sign saying "Goods for You".

But the fact that only a tiny minority of Muscovites can afford the wares at dozens of newly-opened private businesses is at the heart of Mr Boris Yeltsin's dash to liberalise imports and move towards a convertible currency.

The manager of the business says he buys his stock from Syrian students who bring in the mostly-western goods or from Soviet citizens who are not asked where they got their merchandise from. He does not import goods himself.

With no alternative source of supplies, private entrepreneurs are free to name their price. Reflecting the increasing "dollarisation" of the economy, the rouble prices reflect western price levels based on a black market rate of Rbs77 to the dollar - compared to the fixed state "commercial" rate of Rbs1.7 to the dollar.

With a pair of lady's boots costing Rbs1,800 – the minimum monthly wage was raised at the weekend to Rbs200 – it is not surprising that most passers-by shake their heads and complain angrily about "commercial prices". With the state sector unlikely to meet demand even if state retail prices are freed this winter as promised, Mr Yeltsin is counting on foreign imports of food and consumer goods to help fill the market.

His decree "on liberalising foreign economic activities" allows the import and export of all goods except oil, abolishes fixed exchange rates for the rouble, and does away with all central government levies on the hard currency revenues of Russian exporters.

The main unanswered question is how his programme will be financed. Russia needs hard currency to pay for imports, and if it is serious about the internal convertibility implied by the decree, then it will need additional hard currency funds to stabilise the rouble and stop the exchange rate going through the floor. Assuming agreement is reached on servicing the Soviet Union's foreign debt at a meeting with G7 officials in Moscow today, then Russia will also need hard currency revenues to help service its share of debt.

A woman looks at tomatoes on a stall in Moscow yesterday. Food rationing is expected soon

Western creditors have said future credits are dependent on a credible commitment by Soviet republics to honour debts accumulated by the former Soviet Union.

Only some of the funds can be secured by Russia's takeover at the weekend of all exports of precious metals, diamonds, and oil produced on Russian territory. Mr Yeltsin's decree abolishes the old centralised instruments for servicing the $60bn foreign debt without spelling out how Russia proposes to finance its share of the debt in future.

Mr Yeltsin's abolition of a decree by President Gorbachev requiring enterprises to sell 40 per cent of their export revenues to the state at the unfavourable "commercial rate" may encourage enterprises to sell their currency at a free market rate. But Mr Yeltsin has yet to spell out how he plans to extract this currency from enterprises while granting them greater freedom to engage in trade.

Russia can now come to the G7 table with tangible proof of its intentions to reform. Following months of idle chatter about market reform plans, Mr Yeltsin's decrees are the first sign that he means business – which in turn may make it easier for foreign partners to help him.

Hungary seeks firmer links with Britain

By Judy Dempsey

PRESIDENT Arpad Göncz of Hungary yesterday began a five-day visit to Britain aimed at strengthening economic, cultural and trade relations.

Mr Göncz, who today will lunch with Mr John Major, UK prime minister, will stress that Hungary remains one of the most stable among the new democracies in eastern Europe, and therefore attractive to foreign investors.

Last year, UK investments accounted for only 2.2 per cent of the capital committed to Hungary by European Community countries, and 4.8 per cent of the EC enterprises in the country.

The need for more foreign investment, closer ties with the EC, and ways to cope with Hungary's growing food surpluses, will be raised in talks with the Confederation of British Industry, and the European Bank for Reconstruction and Development.

Mr Göncz, and Mr Geza Jeszenszky, Hungarian foreign minister, are also expected to discuss with British officials the impact of the conflict in Croatia on Hungary. More than 40,000 Yugoslav refugees are in Hungary, 3,500 of them in special camps set up in August.

INTERNATIONAL NEWS

Congress set to boost strength in parliament

By David Housego in New Delhi

THE Congress administration of Prime Minister Narasimha Rao seemed set last night to boost its strength in the Indian parliament in by-elections widely seen as an important test of the standing of the four-month-old government.

But in parallel by-elections to the state assemblies, the radical Hindu radical Bharatiya Janata Party (BJP) also improved its position in the key northern state of Uttar Pradesh where it forms the government.

The Prime Minister himself won a landslide victory by a 580,000-vote majority in Nandyal in the southern state of Andhra Pradesh while Mr Sharad Pawar, defence minister, was winning by a clear margin in his home state of Maharashtra. Neither had contested a seat in the June general election during which Mr Rajiv Gandhi, the Congress leader and former Prime Minister, was assassinated.

In Mr Gandhi's own constituency of Amethi in Uttar Pradesh, his close friend and aide, Captain Satish Sharma, was also well ahead in early counting. Though he had been the front runner to win the seat, he faced intense campaigning from both the BJP and the Janata Dal led by Mr Gandhi's bitterest foe, former Prime Minister V.P. Singh.

Of eleven parliamentary seats for which early results were available last night, Congress was leading in seven, thus seeming close to achieving its goal of winning 10 of the 15 parliamentary seats in by-elections held on Saturday, mostly in Bihar.

Counting for the three Parliamentary seats in the eastern province of Bihar was postponed after violence and allegations of vote-rigging at some polling stations. Six people were killed in poll-related violence on Saturday.

Even if Congress won all 15 of the seats being contested, it would still fall short of the 260 needed for a majority in parliament which reconvenes for the winter session on Wednesday. But the party's seemingly strong performance in the by-elections will ease Mr Rao's difficulties in running a minority administration and remove the threat of an early fresh general election.

Kenya says US is aiding opposition

By Michael Holman and Julian Ozanne in Nairobi

RELATIONS between Kenya and the US deteriorated sharply at the weekend as the government accused US diplomats of "master-minding" the country's opposition movement.

Government anger at what it sees as outside interference in Kenya's affairs was underlined in a speech on Saturday by President Daniel arap Moi, who said unnamed foreign countries were inciting "anarchists" to break the law.

Yesterday, Mr Smith Hempstone, US ambassador to Kenya, described the allegations in the government statement as "outrageous" and a "fabrication".

In a reference to the international aid conference on Kenya, which opens in Paris a week today, the ambassador said: "We are not going to be in a hurry to do them any favours." The Paris meeting will determine levels of aid to Kenya for the next two years.

The government statement followed Saturday's arrest of six more prominent supporters of the Forum for the Restoration of Democracy (FORD). A government clampdown on FORD was launched last Thursday when eight of the movement's leading supporters were arrested.

Riot police used tear-gas on Saturday to disperse crowds trying to attend a banned rally in the city at which FORD speakers were planning to call for a national convention to draft a multi-party constitution.

Local newspaper said one man died in a stampede when police charged a crowd and seven people had received gunshot injuries. A police spokesman said there had only been minor casualties.

The government statement, issued late on Saturday, claimed that it was "clear" that the six arrested supporters of FORD "have been operating from under the cover of some foreign missions based in Nairobi."

It singled out US diplomats as having "masterminded and abetted the supposed opposition movement." Although the US has led international criticism of the clampdown on the opposition, Germany, Sweden and Britain – all large aid donors – have also condemned the government's actions.

FORD officials said yesterday that their campaign for a multi-party system will continue despite the arrests. But the informal meeting of lawyers, trade unionists, churchmen and politicians now faces a severe test.

Kuwait's forces 'not ready for combat'

By Mark Nicholson in Kuwait City

THE Kuwaiti commander of joint Kuwait-US military exercises in the emirate yesterday conceded that Kuwaiti armed forces would not be in a position to enter combat on their own for the forseeable future.

Brigadier Ali al-Mumim said Kuwait's forces, severely depleted and suffering poor morale since the Gulf war, would rely on co-operation with US and other Gulf forces until the army was rebuilt.

Kuwait's land army, over 20,000 before the Gulf war, is now down to some 10,000 men, according to western diplomats, who say rebuilding the force has so far taken a *low priority in Kuwait's recovery programme*. "The military is the one area where really nothing has happened since liberation," said one diplomat yesterday.

In the short term, Kuwait will rely for its security from any further threat from Iraq on the continued presence of US aircraft carriers and warships in the Gulf and US air force units in Saudi Arabia.

Although the remaining 1,500 US troops still stationed in the emirate are due to leave in December, American forces are expected effectively to rotate into Kuwait through regular, high-profile training exercises under the terms of the new 10-year US-Kuwait security co-operation accord.

Some 2,300 US marines will today begin *winding down the first such exercise*, which since November 11 has seen US Navy, US air force and marine units join small Kuwaiti land and air units in basic live-fire exercises. Although hailed yesterday as "a great start" by Rear Admiral Ray Taylor, commander of US Naval forces in the Gulf, in practice the drills emphasise continued US firepower.

Our Middle East Staff adds: Allied and Iraqi military commanders are accused of violating the accepted laws of war during the Gulf conflict in a study issued by the New York-based organisation Middle East Watch.

The report says needless civilian deaths were caused in Allied air attacks which breached 1949 Geneva Conventions in selection of targets and methods of attack.

Gadaffi thrown on defensive by bombing charges

Tony Walker on the impact of recent accusations that Libya sanctioned attacks on airliners

LIBYA'S leader Muammar Gadaffi appeared to be making progress in his efforts to improve relations with Europe and to lessen the hostility of the US.

That was until last week's indictments of two Libyan officials over the bombing in 1988 of Pan Am flight 103 over Lockerbie in Scotland, with the loss of 270 lives.

Now, the idiosyncratic leader again finds himself on the defensive, the target of both US and European hostility. The Lockerbie revelations are also awkward for Egypt, which had been working behind the scenes to end Libya's isolation and, more to the point, open the possibility of a rapprochement with the US.

There is now absolutely no chance of the US lifting actions against Libya and unfreezing its more than \$2bn (£1.1bn) assets in US banks.

While western and Arab officials do not expect the US to use force against Libya – such a step would threaten fragile Middle East peace efforts – they have little doubt that Washington and its European allies will once again tighten the screws.

The Lockerbie indictments come at a difficult moment for Libya in any case. Two weeks ago, a French judge issued arrest warrants for four Libyans over the 1989 bombing of a French UTA airliner en route from the Congo capital, Brazzaville, to Paris.

In both the Pan Am and the UTA bombings, investigators report the use of identical triggering devices from a Swiss company and Semtex plastic explosive.

France, which had tended to be more conciliatory towards the mercurial Colonel Gadaffi than most of its EC partners, will now be under pressure to join the US and Britain in punitive measures against Tripoli An early casualty is likely to be tentative steps by France, Italy, Spain and Portugal to ease trade restrictions on Libya. But the Europeans may feel constrained by Libya's importance as an oil supplier. Libya is the EC's second largest source of oil.

These troubles coincide with signs of strain in the Arab Maghreb Union, composed of Libya Algeria, Tunisia and Morocco. In the past week, an unseemly row developed between Libya and Algeria *over the revolutionary credentials* of the neighbouring states. This followed remarks by Col Gadaffi in which he charged that the Algerian revolution had "brought few gains in view of the fact 1.5m martyrs sacrificed their lives".

The Libyan leader had also complained that little of the aid Tripoli gave to Algeria in the past 20 years had been repaid.

The Lockerbie affair is also bad news for US oil companies and suppliers of equipment for the oil sector. Attempts by Conoco, Amerada Hess, Marathon, W R Grace and Occidental to persuade the administration to lift its ban on their operations in Libya have received a fresh setback. It could be that they will not be permitted to resume their activities in Libya for the foreseeable future.

According to the General Accounting Office in Washington, these companies were losing up to \$25m through their absence from Libya. Some \$2bn-\$4bn in assets of the five are frozen in Libya. Under a "standstill" agreement, the US companies retain their interests in Libya at the time of their withdrawal in 1986 but the wells are operated by the Libyan National Oil Company.

Renewed international pressure on the Libyan regime will be unwelcome. After a disastrous period in the mid-1980s, during which he was the target of an American bombing raid and saw his army crushingly defeated in Chad, a more subdued Col Gadaffi had emerged.

Limited steps to liberalise Libya's economy and relax *travel restrictions* had improved his standing somewhat in his own country.

But, in spite of grandiose schemes like the multi-billion-dollar Great Man-Made River project (GMR), opened this year, the Libyan economy remains in a wretched state.

Libya is building a second poison gas factory, similar to its existing plant at Rabta, according to German press reports. German "technological mercenaries," meanwhile, have been approached by Iran and Syria, which are trying to arm themselves with a full range of atomic, biological and chemical weapons, writes Christopher Parkes in Bonn.

The reports, in the weekly news magazine Der Spiegel, say national security services have warned Chancellor Helmut Kohl of an accelerated build-up of weapons technology in the Middle East.

The magazine claimed that UN inspectors had identified 24 German companies which had provided materials which helped Iraq to produce poison gas and helped the country to double the range of the Soviet-built Scud B missiles used against Israel during the Gulf war.

The town is now big enough – and peaceful enough – for both of them: Cambodian prime minister Hun Sen (left), contemplating a news conference question, and a Khmer Rouge guerrilla leader, Son Sen, arriving in Phnom Penh for the first time since 1975, were both in the Cambodian capital yesterday

Khmer Rouge's chief executioner returns

SON SEN, a leader of the feared Khmer Rouge guerrilla organisation, returned to the Cambodian capital of Phnom Penh yesterday, 13 years after the Khmer Rouge regime was overthrown by a Vietnamese invasion, Victor Mallet reports *from Phnom Penh.*

The Khmer Rouge defence chief, responsible for the torture and execution of Cambodians held at Phnom Penh's S-21 detention centre, called Tuol Sleng, will take his place on the country's Supreme National Council as part of a UN-sponsored peace plan, leading to elections in 1993.

The bespectacled Son Sen walked calmly from a Bangkok Airways flight, said he was glad to be in Phnom Penh, and was taken to a government guest house, followed by an entourage of 10.

People waited outside the house for a glimpse of the man who had caused so much misery. "In 1975, we had 14 in my family," said Mr Vichet Men, a road engineer. "After he left, only seven were still alive. I want to see him. He's responsible for the killing of many millions of Cambodians."

The Khmer Rouge are thought to have killed at least 1m Cambodians between 1975 and 1979, but most residents of the capital seem resigned to having them in the SNC as part of the peace plan, regarding such a solution as preferable to a continuation of the guerrilla war.

Mak Ben, another Khmer Rouge official, said he was returning home and had no concern for his security because it was a time of national reconciliation.

Yesterday Hun Sen, prime minister in the existing Vietnamese-installed government, said he would have no contacts with the Khmer Rouge except in the SNC. He confirmed that he had an alliance with Prince Norodom Ranariddh, the son of the SNC head Prince Norodom Sihanouk. The royal family and the government of Mr Hun Sen are evidently trying to squeeze the Khmer Rouge, and a fourth faction led by Mr Son Sann, onto the margin of political life before the elections.

Prince Sihanouk referred at the weekend to Prince Ranariddh and Hun Sen as his "two sons", and praised the government for reviving Buddhism and liberalising the economy.

Japanese ready to lift rice import ban

By Steven Butler in Tokyo

SENIOR Japanese political leaders yesterday gave the clearest indication yet that Japan was preparing to open its rice market. This followed a warning by Mrs Carla Hills, US trade representative, who left Tokyo yesterday, that Japanese intransigence threatened to cause the failure of the Uruguay Round of trade talks.

Mr Ichiro Ozawa, vice-president of the ruling Liberal Democratic party's largest faction, told a rural political meeting that, with the US and Europe nearing a deal on agricultural trade, Japan would be disadvantaged diplomatically if it failed to end its ban on rice imports.

Mr Ozawa had said on Saturday Japan needed to be "flexible" about opening its rice market. Mr Michio Watanabe, foreign minister, who has rejected compromise on the issue, appeared to soften his stance by suggesting a plan to compensate farmers if Japan had to open its market.

Mrs Hills left Tokyo after a round of meetings with senior political leaders and the ministers of trade, agriculture, finance and foreign affairs, where, according to all reports, the rice import issue was not even raised.

"I appreciate the fact that rice is sensitive," she said. However, in response to questions, she said: "If Japan finds itself unable to negotiate on agriculture, then Japan stands in large measure to cause the Uruguay Round to fail."

She added: "It is truly beyond my comprehension that Japan would contemplate causing a failure of the Uruguay Round."

Mrs Hills also said that for Japan to open its market by several percentage points would also be unacceptable. She said Japan needed to adopt a tariff system to control the inflow of rice. Domestic Japanese rice prices are several times world levels.

Mrs Hills said that the current round of trade negotiations would not be extended again if it failed. She said momentum in the talks would be lost in part because of the large number of elections to be held in the near future by participating countries that would lead to changes in political leadership.

"I don't think you can say this will go on and on, that like the morning paper, it will just come," she said. "If we fail historians will look back and say that we missed a spectacular opportunity."

Mrs Hills acknowledged that the slowdown in Japan's economy was expected to lead to an increase in the trade imbalance between the US and Japan in the coming months, which could worsen tensions.

Japan's trade surplus with the US has increased in each of the past three months after a decline since the peak of 1987. The slowdown in Japan's economy has reduced domestic demand, causing a decline in imports while giving Japanese manufacturers stronger incentives to find overseas markets.

The Bank of Japan *last* Thursday lowered the official discount rate by half a point to 5 per cent after rising pressure from industry and from other government officials, particularly in the Ministry of International Trade and Industry, to lower the cost of money.

The central bank has been determined to put a halt to the asset inflation of the late 1980s, when low interest rates gave rise to intense speculation in property and financial assets.

However the bank's policies of high interest rates have sharply raised the cost of capital to Japanese companies. At the same time slack demand has left a range of industries with excess capacity – hence a sharp slowdown in the rate of growth in capital spending, which is expected to decline next year, according to some surveys.

The central bank appears confident, even so, that capital spending will stay high enough to avoid any sharp slowdown in the rate of economic growth.

Ashrawi set to escape threat of prosecution

ISRAEL indicated yesterday that it would not after all prosecute Mrs Hanan Ashrawi, spokeswoman for the Palestinian negotiators at the Middle East peace talks, over links *with the Palestine Liberation* Organisation, writes Hugh Carnegy in Jerusalem.

Police last week presented evidence of a case against Mrs Ashrawi, drawing a sharp response from Arab leaders and pressure from the US not to proceed.

Mr Ronni Milo, the police minister, said yesterday: "This decision will be made on the basis of legal considerations and also on the basis of considering other aspects directly relating to the matter."

Mr Ehud Olmert, the health minister, went further, saying he believed Mrs Ashrawi would not be put on trial. Regardless of the political impact, the legal grounds for charging a non-Israeli with breaking Israeli laws against PLO contacts were questionable.

Awaiting a mutual fund for Europe

Richard Waters analyses difficulties facing the cross-border investment industry

THE EUROPEAN MARKET

THE era of the Europe-wide mutual fund has yet to arrive. Despite two-year-old legislation in the European Community making it possible to sell the same collective investment schemes to people in Manchester, Lyons or Barcelona, few financial institutions have attempted anything as ambitious.

The investment industry warned that it would take a decade or more for cross-border retail investments to develop, even though there appears to be plenty of demand.

The value of investments in European mutual funds stood *at the equivalent of about* $654bn at the end of June – half the $1,300 in US funds and nearly double the $352bn in Japan.

However, differences in national investment habits, the difficulties in establishing effective retail outlets across the EC, and the complexities of complying with the varying national regulations which still govern how one sells such investments are just some of the problems.

In theory, EC-wide collective investment schemes came into existence in 1989 when the EC introduced legislation governing Ucits (Undertakings for Collective Investments in Transferable Securities).

To qualify, funds must be open-ended, and invest in securities (which excludes, for instance, property, commodities and money market investments). Such schemes can be sold across the Community, *provided a fund is recognised* in one EC state and complies with certain rules. It can also seek authorisation in any other state.

This should work to investors' advantage. The fixed *costs* of running collective investment schemes are substantial. Replicating a scheme in each market would add to the costs and erode the investment returns. In the US, mutual funds with more than $1bn invested in them are common: in Europe, they are still a dream.

Luxembourg has been the biggest beneficiary of the Ucits directive. It now acts as home to more than 850 Ucit-type investment schemes with assets equivalent to $106bn (in Europe, only France has more money in mutual funds).

Luxembourg's success is based largely on the fact that it does not deduct withholding tax from interest and dividends.

The Grand Duchy's popularity does not mean that cross-border mutual funds have emerged directly from the Ucits directive. Tax-shy investors have traditionally gravitated to Luxembourg. Also, it has attracted existing investments away from other "off-shore" centres as investment companies have moved to centralise their cross-border funds.

Fidelity, the US investment group, has $450m under management in its one-year-old Luxembourg schemes, more than half of which had been handled from Jersey.

Distribution remains the biggest problem. As with any *retail product, control of distri*bution by existing national companies can deter outsiders. Both the German and French retail markets are dominated by banks, which sell their own range of investment products.

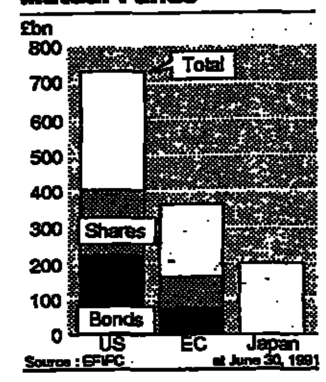
The UK has moved steadily in the same direction in the three years since the Financial Services Act came into force, as independent investment brokers and advisers have become linked to specific banks or insurance companies.

Against this background the only truly effective way of breaking into a national market is to buy an existing distribution network.

Despite this, some groups are discovering ways to sell mutual funds across borders. There are still networks of independent intermediaries in most European countries, although their share of total sales of investments is low.

For instance, Robert Fleming, the UK investment group, has collected the equivalent of $596m in its Luxembourg-based fund. It has targeted Germany and France as priority markets

Mutual Funds



Source: EFIFC

– not surprisingly, perhaps, given that these two have the most developed collective investment industries.

Both Fidelity and Fleming have found their way to German investers through independent intermediaries. Fidelity plans another route, through smaller German financial institutions which do not have the resources or the skills to manage equity funds.

That could mean marketing its funds under each institution's own name, rather than the Fidelity brand, although that has still to be determined.

In France, meanwhile, Fleming has made headway by creating its own sales force. It is now 60-strong and has attracted the equivalent of $177m in investment so far.

Developments like these suggest that investment companies prepared to tailor their approach to particular markets can still find a way into what are generally considered to be "closed" retail investment markets.

A further problem is that patterns of investment differ markedly. French investors are the keenest users of mutual funds: there is the equivalent of $279bn *invested in French* schemes, more than three quarters of it in money market instruments.

By comparison, the British prefer equities. More than 95 per cent of the $99bn in collective schemes *in Britain* is invested in shares. In Germany – the next biggest home for mutual funds, with $72bn equivalent – there is a traditional preference for bonds. These make up about 85 per *cent of their investments.*

The overall mixture of mutual fund investments in the EC is similar to that in the US (see chart – figures for Japan are not available). However, the differing national preferences illustrate how fragmented the EC's investment markets remain.

At present, only mutual funds investing in securities qualify to be sold across borders. That could change: the European Commission is believed to be reviewing the Ucits legislation, and might decide that a wider range of investment vehicles should be available.

That could mean, for instance, recognising funds which invest in money market instruments. Such a move could open the way to a greater foreign assault on the French market.

Another *outstanding issue* is that of compensation. Different countries have *different* levels of compensation for private investors (or, in some cases, none at all). Also, when an investment is made across borders, it can be difficult to establish where compensation is payable.

Even if these obstacles could be overcome, would most investors be any keener to put their money into a mutual fund based abroad? As one investment regulator commented: "*That is one natural* barrier that still has to be climbed."

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	275.8	−135.8	−125.5	0.7891	96.9
1985	279.6	−174.2	−160.5	0.7623	100.0
1986	230.9	−140.6	−147.8	0.9836	80.2
1987	220.2	−131.8	−138.6	1.1541	70.3
1988	272.5	−100.2	−106.7	1.1833	66.0
1989	330.2	−99.3	−96.5	1.1017	69.4
1990	308.8	−79.8	−72.3	1.2745	66.1
4th qtr.1990	74.2	−18.8	−17.1	1.3714	60.6
1st qtr.1991	75.7	−12.6	7.8	1.3435	61.8
2nd qtr.1991	89.3	−11.0	2.5	1.1849	68.4
3rd qtr.1991				1.1727	66.5
October 1990	25.5	−7.3	n.a.	1.3666	60.9
November	24.2	−6.9	n.a.	1.3861	60.2
December	24.5	−4.6	n.a.	1.3716	61.2
January 1991	25.1	−5.4	n.a.	1.3627	61.2
February	24.2	−4.0	n.a.	1.3899	60.2
March	26.6	−3.3	n.a.	1.2779	63.9
April	29.5	−3.7	n.a.	1.2091	65.6
May	29.6	−4.0	n.a.	1.1927	66.0
June	30.3	−3.3	n.a.	1.1531	67.6
July	30.6	−5.2	n.a.	1.1505	67.6
August	29.0	−5.7	n.a.	1.1783	66.6
September			n.a.	1.1911	65.3

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	213.8	56.7	44.1	187.03	97.9
1985	230.6	76.0	64.5	180.50	100.0
1986	211.1	96.2	86.8	165.11	124.4
1987	197.3	86.1	75.2	166.58	133.2
1988	219.6	80.7	68.5	151.51	147.3
1989	245.3	70.5	52.8	151.87	141.9
1990	219.9	49.8	28.1	183.94	126.0
4th qtr.1990	55.4	12.2	4.7	179.38	133.8
1st qtr.1991	58.3	17.2	13.2	179.61	132.1
2nd qtr.1991	61.0	19.5	15.8	163.84	135.9
3rd qtr.1991	65.5	23.4	16.5	159.87	138.5
October 1990	18.5	4.1	1.9	175.95	135.6
November	18.5	4.1	1.8	178.84	134.6
December	18.4	4.0	1.0	183.34	130.9
January 1991	18.8	5.3	2.9	182.13	131.1
February	18.4	5.3	4.2	181.25	133.2
March	21.2	6.7	6.2	175.44	132.0
April	18.7	6.5	6.4	165.79	135.7
May	20.9	5.9	4.9	164.84	135.4
June	21.5	7.1	4.5	160.89	136.6
July	21.4	7.1	4.1	158.49	138.5
August	21.7	8.2	8.0	160.93	138.2
September	22.3	8.1	6.3	160.18	138.7

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	*218.3*	*24.2*	*12.5*	*2.2387*	*100.0*
1985	*242.6*	*33.2*	*21.7*	*2.2269*	*100.0*
1986	*248.6*	*53.5*	*40.3*	*2.1279*	*108.8*
1987	*254.2*	*56.7*	*39.6*	*2.0712*	*115.3*
1988	*272.6*	*61.7*	*42.8*	*2.0739*	*114.8*
1989	*310.2*	*65.3*	*52.0*	*2.0681*	*113.5*
1990	324.2	51.4	37.7	2.0538	119.1
4th qtr.1990	82.5	7.2	6.2	2.0589	120.0
1st qtr.1991	81.9	3.4	−4.5	2.0582	119.8
2nd qtr.1991	78.4	−0.3	−5.2	2.0557	116.2
3rd qtr.1991			−6.1	2.0422	116.5
October 1990	26.1	4.5	3.3	2.0679	119.0
November	27.8	1.5	0.6	2.0583	120.2
December	25.5	1.3	2.1	2.0503	120.8
January 1991	28.4	0.7	−1.0	2.0582	120.1
February	26.7	1.4	−0.7	2.0570	120.7
March	26.9	1.3	−2.8	2.0554	118.6
April	25.1	0.4	−1.2	2.0604	116.4
May	27.3	−0.7	−2.2	2.0526	116.3
June	26.0	−0.0	−1.8	2.0541	115.8
July	27.4	−0.1	−2.8	2.0522	115.8
August	28.8	2.0	−1.6	2.0518	116.5
September			−1.7	2.0226	117.1

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	123.7	−3.6	−1.1	6.8715	99.1
1985	133.4	−4.5	−0.2	6.7941	100.0
1986	127.1	−0.1	3.0	6.7946	102.8
1987	128.3	−4.5	−3.6	6.9287	103.0
1988	141.8	−4.6	−3.4	7.0354	100.8
1989	162.9	−6.4	−3.6	7.0189	98.8
1990	171.2	−6.0	−8.4	6.9203	104.6
4th qtr.1990	43.5	−1.1	−1.0	6.8400	105.6
1st qtr.1991	42.2	−2.1	−2.8	6.8940	104.3
2nd qtr.1991	43.2	−1.1	−0.6	6.9621	102.0
3rd qtr.1991	44.8	−1.8		6.9409	101.8
October 1990	14.8	−0.80	−0.42	6.9266	105.5
November	14.5	−0.17	0.18	6.9299	105.8
December	14.3	−0.16	−0.76	6.8945	105.3
January 1991	14.3	−1.00	−0.45	6.9853	104.7
February	13.9	−0.48	−1.54	7.0016	104.8
March	13.9	−0.65	−0.84	6.9951	103.2
April	14.7	−0.27	−0.60	6.9806	102.4
May	14.2	−0.29	0.27	6.9674	102.0
June	14.2	−0.55	−0.28	6.9683	101.5
July	15.2	−0.57	−0.20	6.9670	101.4
August	14.5	−0.59	0.04	6.9724	101.8
September	15.1	−0.49		6.8833	102.2

ITALY

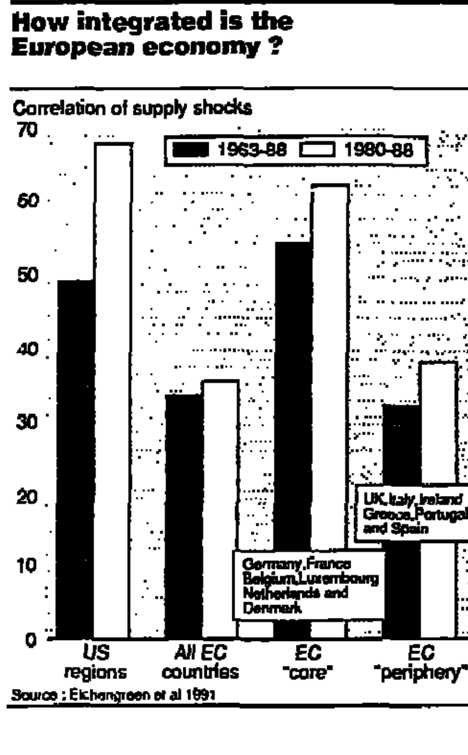
	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	93.4	−13.9	−5.2	1381.5	105.9
1985	103.7	−16.0	−5.4	1443.0	100.0
1986	99.4	−2.5	−1.4	1461.5	101.4
1987	100.7	−7.5	−2.1	1494.3	101.2
1988	108.3	−8.9	−8.0	1536.8	97.8
1989	127.8	−11.3	−17.0	1509.2	98.6
1990	133.6	−9.3	−18.9	1523.2	100.6
4th qtr.1990	35.8	−2.0	−7.7	1547.5	99.8
1st qtr.1991	32.4	−4.2	−8.0	1540.8	100.1
2nd qtr.1991	35.4	−3.4	−5.8	1525.3	98.8
3rd qtr.1991	31.9	−1.6	−5.5	1524.7	98.1
October 1990	12.4	−1.0	−2.7	1548.3	99.4
November	10.9	−2.4	−2.1	1547.4	99.9
December	12.5	1.3	−3.0	1546.8	100.1
January 1991	9.9	−3.2	−3.4	1545.6	100.0
February	11.3	−0.8	−2.6	1543.5	100.5
March	11.1	−0.4	−1.9	1533.1	99.8
April	11.4	−1.5	−2.7	1528.3	98.9
May	11.3	−2.1	−0.8	1522.9	98.7
June	12.7	0.3	−2.4	1526.6	98.2
July	13.3	0.1	−2.2	1528.7	97.9
August	7.5	0.2	−0.4	1533.6	98.0
September	11.2	−2.0	−2.8	1511.7	98.5

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	118.9	−9.0	3.1	0.5906	100.6
1985	132.4	−5.7	4.7	0.5891	100.0
1986	108.3	−14.2	−0.3	0.6708	91.5
1987	112.3	−16.4	−5.9	0.7047	90.1
1988	120.9	−32.5	−23.4	0.6643	95.5
1989	137.3	−36.5	−30.3	0.6728	92.6
1990	142.7	−26.1	−20.1	0.7150	91.3
4th qtr.1990	36.5	−4.5	−2.7	0.7050	94.1
1st qtr.1991	35.5	−4.3	−3.7	0.7040	93.8
2nd qtr.1991	37.6	−3.0	−1.1	0.6942	91.4
3rd qtr.1991	38.1	−3.0	−2.1	0.6955	90.7
October 1990	12.4	−1.7	−1.12	0.6974	94.8
November	12.3	−1.3	−0.87	0.7055	94.2
December	11.8	−1.3	−0.71	0.7123	93.3
January 1991	11.7	−1.9	−1.72	0.7043	94.1
February	11.7	−1.1	−0.91	0.7071	94.3
March	12.0	−1.3	−1.08	0.7005	92.9
April	12.2	−1.2	−0.56	0.6917	92.3
May	12.3	−1.3	−0.67	0.6926	91.7
June	13.0	−0.5	0.14	0.6984	90.2
July	12.7	−0.9	−0.54	0.6962	90.3
August	13.0	−1.1	−0.85	0.6990	90.7
September	12.5	−1.0	−0.76	0.6914	91.0

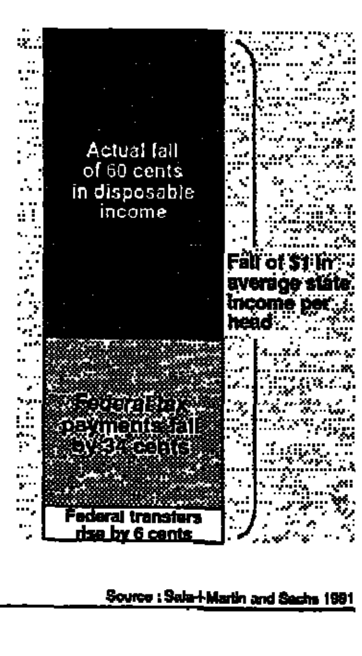
All trade figures are seasonally adjusted, except for the Italian series and the German current account. *Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage,* insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

How integrated is the European economy?



Source: Eichengreen et al 1991

How US federal taxes and transfers cushion regional shocks



Source: Sala-i-Martin and Sachs 1991

The likely costs of Emu for Europe's 'periphery'

IT MIGHT seem premature to ask how life will be when, and if, European monetary union (Emu) occurs, but the realities will be much harsher for some European countries than others. Emu will *probably* deliver both lower inflation rates and lower nominal interest rates than most European countries now enjoy. Even so, it will have costs. For those countries less economically integrated into Europe, these costs could turn out to be prohibi*tively high*.

Emu means that no country can run a different monetary policy and have a different interest rate than that set by the European Central Bank. All well and good if this frees policy from the electorally motivated manipulations of national *politicians – but there are* times when individual countries might gain from running an independent monetary policy. If one country is worried about rising wage inflation while the others are in recession, it would gain by raising its interest rate and revaluing its exchange rate.

So Emu implies a trade-off between the gains from low inflation and the costs from losing the flexibility to revalue or devalue. If all countries suffer the same economic events at the same time, there is no loss in giving up the power to vary the exchange rate. If the output shock is felt *symmetrically*, the desired policy response is also symmetrical. The more that countries have similar and integrated patterns of trade and production, the more they should suffer similar swings in real output.

Conversely, the scales tip towards *continued monetary independence* if the country tends to have surprise economic events that affect it alone or that affect its output and employment in the opposite way to those of other countries.

Mr Barry Eichengreen, an economist at the University of California at Berkeley, has compared the correlation of supply shocks across European countries with the correlation across US regions.* The US has survived for a very long time with a fixed exchange rate between its states. If the US can, why not Europe?

In fact, the correlation of shocks across European countries is much lower than across the eight US regions. Region-specific economic events are more common in Europe than in the US, but this is not true for all European countries. Excluding the peripheral European countries produces, for the European "core" (Germany, France, Denmark and the Benelux), a correlation similar to that of the US regions.

So it is the peripheral European countries – the UK and southern Europe – that are most likely to suffer regional output shocks that differ from those in *other European countries. These are the* countries which will have more frequent swings in output and employment in Emu. The shocks they suffer also tend be twice the size of those suffered by the core group and the US - nor has the gap between the "peripheral" and "core" countries of Europe closed in the 1980s.

That the US regions can cope with a single currency does not imply that Europe can too. US regions are more economically integrated than the EC, they suffer smaller regional shocks and these shocks disappear more rapidly.

The US also uses its federal tax and transfer system to soften the blow for troubled regions. Mr Xavier Sala-i-Martin and Mr Jeffrey Sachs of Yale and Harvard Universities have measured the importance of this federal cushion.** On average, more than a third of the fall in regional pre-tax income per head is offset, largely by lower federal taxes."

The "peripheral" European countries cannot count on a similar European federal insurance scheme. Moreover, the Dutch draft of the Emu treaty would restrict individual countries' ability to use *fiscal policy to stabilise incomes* by borrowing when times are bad. So, Emu will result in large and persistent swings in regional incomes and employment.

For these "peripheral" countries, low inflation via Emu will not come cheap.

Edward Balls

* *Shocking Aspects of European Monetary Unification, B.Eichengreen et al., University of California at Berkeley, 1991.*
** *Fiscal Federalism and Optimum Currency Areas: Evidence for Europe from the US, X.Sala-i-Martin & J.Sachs, US National Bureau of Economic Research, Working Paper No. 3855, 1991.*

UK NEWS

ECONOMY

CBI cautious on recovery as retailing shows upturn

By Rachel Johnson, Economics Staff

TRADING CONDITIONS among Britain's retailer's have begun to pick up from their lows, but an economic recovery will be held back by consumers' caution over the next few months.

According to the Confederation of British Industry's October survey of the distributive trades, year-on-year sales volumes have risen for the third month running and the "slow upturn in retail sales is now starting to gather momentum".

But the CBI described the improvement in volumes as "moderate" and warned that retailing conditions "remain difficult".

The survey's picture of a slow, patchy upturn could temper expected claims from the government tomorrow – in the wake of gross domestic product's first quarterly rise for over a year – that the recession technically ended in the third quarter.

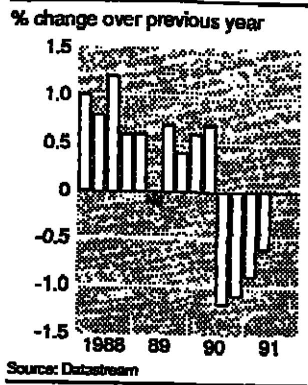
The survey could also suggest that expectations of a jump in today's official retail sales volumes for October are excessive.

Retailers of electrical and other household goods, books and stationery, DIY outlets and off-licences reported that volumes remained below October 1990's depressed levels. October's partial increases "must be set against slackening sales growth a year ago," the CBI said.

Retailers reported the sharpest year-on-year increase in sales for a year. The balance of retailers – the percentage responding "up" less the percentage responding "down" – was 20 per cent in October, and most expected sales to hold up this month.

UK GDP output

% change over previous year



Source: Datastream

Wholesalers, however, suffered a setback. The balance of wholesalers reporting higher volumes in October slipped back to 13 per cent, after 17 per cent in September. Sales for both were generally "poor for the time of year".

The loss in business in the motor trades, meanwhile, continued to be severe. Almost three quarters reported poor sales in October, and expected even worse conditions in November.

An early sign that the government's proclamations of recovery this week might be muted came yesterday.

"Lower inflation and interest rates are providing a basis for recovery, but it will be no rose garden," said Mr David Mellor, Treasury chief secretary, on BBC radio. "Some hard lessons have been learned by all of us, including the government."

The government, however, is expected to welcome warmly tomorrow's GDP figure for the third quarter. This is due to show a 0.5 per cent rise after four successive quarters of contracting activity.

The third-quarter increase is *almost entirely a result of the* North Sea oil sector's return to normal production levels after more than a year of maintenance interruptions.

Excluding oil, economists at Goldman Sachs predict the recovery in GDP would be limited to a quarterly 0.1 per cent – not enough to back up government confidence in its forecast a broadly-based second-half recovery.

Mr Mellor's judgment that a recovery is under way did receive support from one quarter yesterday.

Oxford Economic Forecasting, an independent consultancy, said growth tentatively resumed in the third quarter following a sharp improvement in the financial position of corporate sector. The economy is to expand by 2.4 per cent next year, but by less than that if house prices continue to fall.

Engineers predict further fall in orders

By Andrew Taylor, Construction Correspondent

CIVIL ENGINEERING order books, described in July by UK companies as the worst for more than a decade, have deteriorated further since the summer according to a survey published today.

Almost a third of civil engineers *questioned last month* expected order books to fall again over the next 12 months, according to the Federation of Civil Engineering Contractors.

The only consolation, it said, was that the proportion forecasting a further decline in orders was slightly lower than in July when 49 per cent of companies forecast a further drop in workloads.

Mr Randal Bale, federation chairman, said the survey was conducted before the government's Autumn Statement which last month outlined public sector spending plans for 1992/93.

He said that it was too early to say whether civil engineers would benefit but companies would be relieved that more money was to be provided for British Rail to offset falling revenues and that spending on roads had not been reduced.

Ashley Ashwood

A £23m modernisation scheme should increase efficiency of the service for City workers

More money goes down The Drain

THE 50-year-old trains on London's Waterloo & City Line are to be replaced as part of a £23m route modernisation next October writes Richard Tomkins, Transport Correspondent.

The quirky subterranean line, nicknamed The Drain, provides commuters from south-west England with a fast, non-stop link between the British Rail terminus at Waterloo and their workplaces around Bank in the City.

BR, which owns the line, was previously unable to replace the four trains because ordering such a small number would have been uneconomical. The problem has been solved by ordering five of the London Underground trains being built by Brel, the rolling stock manufacturer, for the Central Line.

The insides of the tunnels are having to be shaved in places to make way for the bigger carriages. But once in operation, the new trains will carry 540 passengers compared with 490 and having five trains instead of four will allow BR to run 23 trains an hour instead of 16. But the line will have to close for five weeks next year for essential engineering work.

Language shortage 'restricts UK trade'

By Diane Summers, Labour Staff

LACK of language skills among staff of British companies is restricting trade with other countries and causing misunderstandings and stress to employees, according to a survey of nearly 2,000 companies carried out for the government.

Over 60 per cent of the companies *surveyed* conducted business with clients whose first language was not English. This was predominantly in French and German-speaking countries, followed by Spanish and Italian.

These companies identified some language problems and 23 per cent said that lack of a particular language created a barrier to business in certain countries. The research was carried out by the Institute of Manpower Studies for the Department of Employment.

Reliance on using English was most often possible on the Indian sub-continent and in Japan, as well as in Arab, Far Eastern and Northern European countries. Lack of English led to acute problems for contacts with Spanish, French and German speakers and with contacts from eastern Europe and China.

BRITAIN IN BRIEF

Fears grow of new bombing campaign

Concert goers faced increased security measures at an army band concert last night amid fears of a new provisional IRA bombing campaign. A security review took place before a concert in Brentwood, Essex following Friday night's blast close to another army band concert in St Albans town centre in Hertfordshire. Police believe a man and woman, who died in that explosion, may have planted the device. But they have not ruled out the possibility that they were innocent bystanders who went to investigate a suspect package. Home Secretary Kenneth Baker said during a visit to the St Albans bombing scene: "Those who live by terror will die by terror. Here the victims are the culprits. These are outrageous acts. We are dealing with vile and wicked people who perpetrate them."

Pay deals 'will rise'

A decline in pay settlement levels is coming to an end and most deals in the next few months will continue to provide for above inflation increases, according to an analysis published today. Following a sharp fall in settlement levels in the first half of the year, Incomes Data Services, the pay research group, says that the vast majority of deals have been worth between 5 and 7.9 per cent for each of the last three months. The inflation rate for the year to October was 3.7 per cent.

IDS says that the rate of inflation has moved from providing a ceiling for most settlements in the second half of 1990 to being the floor for most deals by mid-1991. The report predicts that stable inflation over the coming months is likely to ensure that settlements will remain in the the 4 per cent to 8 per cent range.

Scottish miners' call

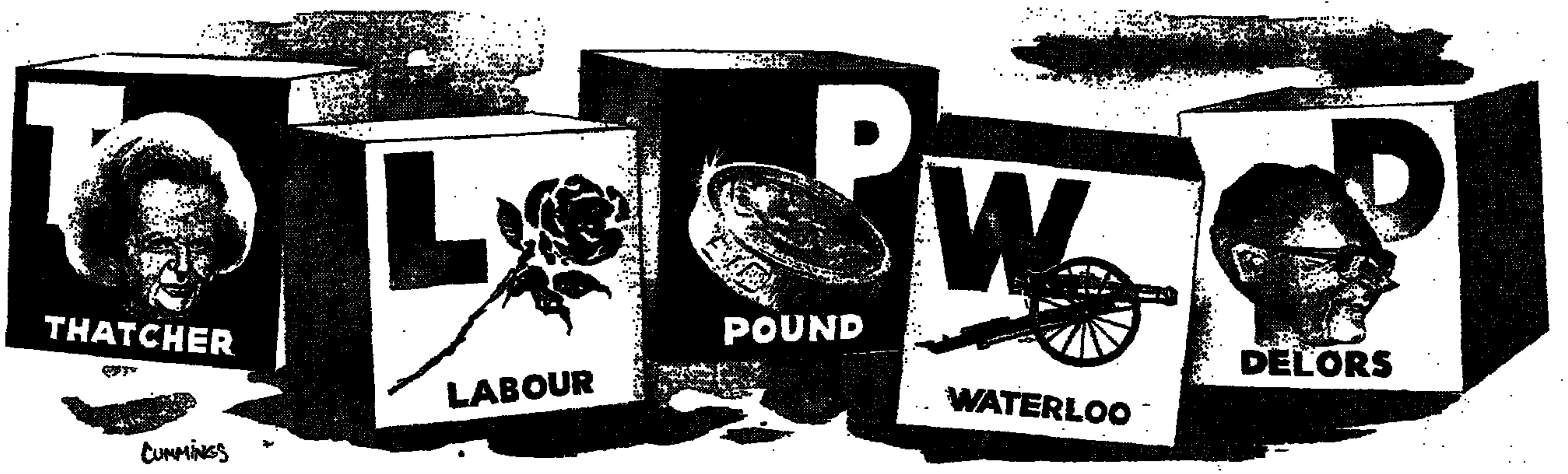
Scottish miners' leaders expect their campaign for a change in the National Union of Mineworkers' pay bargaining stance to gain momentum following a vote by miners nationally to reject a call for industrial action. Mr George Bolton, Scottish NUM president, said it was likely that other areas would back his area's calls for bargaining changes.

Warning on wage plan

The Labour Party's proposal for a national minimum wage will have more damaging effects on wage inflation than on jobs, according to Sir Pat Lowry chairman of of the Advisory, Conciliation and Arbitration service ACAS from 1981 to 1987 (pictured above). The proposal has hitherto come under attack mainly because of *predicted job losses. The Conser*vative government has estimated that job losses could be as high as 2m and Sir Pat claims that there is general agreement that there will be at least some job loss. "The formula proposed for adjusting the national minimum wage could introduce a new and potentially inflationary factor into pay negotiations. For the economy as a whole this would be a much more important consideration than the employment consequences," he says.

Red wine

Wine from the cellars of the Tsars of Russia will be auctioned in London next week. The 10,000 bottles of wine from Massandra, a winery in the Crimea, were transported overland in a temperature-controlled container via Moscow and St Petersburg to Finland for onward shipment.



A-Z guide to the big debate

This week's Commons debate will see a passionate battle over the UK stance at the forthcoming EC summit on political and monetary union, and the Euro-jargon will be at its most incomprehensible. Ralph Atkins and Andrew Hill offer a guide.

A is for anti-federalist. Britain is pledged to avoid a treaty at Maastricht which would lead to a federal Europe but, in Westminster's Euro-lexicon "anti-federalist" is used loosely to describe the Tory MPs (and some Labour MPs) most concerned by the government's negotiating stance.

Some "anti-federalists" outside parliament are threatening to fight in the general election against sitting Conservatives.

B is for Bruges Group, a once-powerful lobby at Westminster which is firmly anti-federalist and against a single currency. It was set up following the 1988 speech in the Belgian town by Margaret Thatcher who set out her alternative vision of a Europe of independent sovereign states. The hall where she delivered the speech is still pointed out by the city's tourist guides. The influence of the Bruges Group has waned recently after some miscalculated attacks on John Major, some of which were disowned by Thatcher.

C is for Commission, the EC's Brussels-based executive or, in the eyes of anti-federalists, the centre of un-elected EC power. Britain fears that extending the "competences" of the EC to new areas would give the Commission too much power to push through measures in the sensitive areas of health, education, industry, energy and infrastructure.

D is for Jacques Delors, European Commission president, bogeyman of the British tabloid press and butt of Conservative party Euro-jokes. Margaret Thatcher wanted to avoid socialism by the "back-Delors".

E is for Euro-groupings. The "Euro-sceptics" are not as forthright as the anti-federalists but still think Britain is moving too quickly towards union.

"Euro-phile" is a label adopted by John Major's closest backbench allies who want Britain to be at the heart of Europe. They are not the same as "Euro-enthusiasts", the most pro-European MPs. "Euro-philes" believe that the Euro-enthusiasts' apparent desire to rush headlong towards economic, monetary and political union is irresponsible.

F is for Federal. "A system of government in which several states form a unity but remain independent in internal affairs," according to the Concise Oxford Dictionary.

G is for Great Britain, originally merely a geographical term to distinguish Britain from Brittany but increasingly – especially in the context of the European question – a call to arms for all British patriots who wish to defend the island realm.

H is for Edward Heath, the former Tory prime minister who boasts he took Britain into the European Community in his four years as prime minister while it took Margaret Thatcher 10 years even to accept membership of the Exchange Rate Mechanism. He is the archetypal Euro-enthusiast.

I is for isolation, which Euro-philes fear will be the UK's fate if John Major refuses to sign a revised Treaty of Rome at Maastricht. I is also for insularity, a charge which Britain's EC partners are inclined to level at the government when it adopts a stubborn negotiating position.

J is for Japan, the economy to beat. If Britain alone cannot compete with Japanese manufacturing, perhaps 12 against one is a fairer fight. This is an argument that even appeals to anti-federalists.

K is for Helmut Kohl, the German chancellor, who was hosting a visit from John Major when the prime minister revealed his desire to put Britain "at the very heart of Europe". The chumminess between the two men is certainly a far cry from the frosty Thatcher-Kohl relationship. However, fundamental differences – on the federal development of the EC, powers of the European parliament, defence policy, crime and immigration – still separate the Euro-policies of the German and UK governments.

L is for Labour policy. Behind the smoke-screen of Tory party divisions, Labour has substantially refined its Euro-policy. It now embraces the principle of a single currency and enhanced powers for the European parliament. Past pre-conditions have been watered down to what Labour merely considers to be desirable. Splits within the party run deep, however, with many on the hard left firmly opposed to integration and clinging to Labour's past policy of outright opposition to EC membership.

L is also for the Liberal Democrats, who are eager to present themselves as the most pro-European party. Paddy Ashdown, the leader, is enthusiastic about a single currency and independent central bank, but even he has only recently begun to use the word "federal" publicly in his Euro-vision.

M is for Maastricht, a small Dutch town on the border with Belgium and Germany, soon to be immortalised.

N is for Britain's negotiating position, which, with only three weeks to go until the summit, is still not entirely clear. Last week alone, confused politicians and pundits read – or wrote – that the UK had rejected the draft treaty on political union (John Major's message to Helmut Kohl), was ready to work for a deal on European integration (Major's speech at the Lord Mayor's Banquet), had made concessions on powers of the European Parliament (Douglas Hurd, foreign secretary, at a meeting of EC foreign ministers) and was still at odds with its partners (Hurd again). The Commons debate may clear up some of the confusion.

O is for outsiders, some of whom – the newly independent central and eastern European countries – John Major does not want to exclude from the community club. As for welcoming other outsiders – immigrants from the same countries and further afield – the UK and its EC partners seem less enthusiastic.

P is for the pound. Nearly 60 per cent of UK voters would disapprove of replacing the pound with a single European currency, according to an ICM poll for The Guardian last week. However, the survey did not measure opposition to the pound becoming the UK version of a Euro-currency.

Q is for the Queen's English, which according to some sources is Britain's "most priceless asset" and should be Europe's common language. In spite of support from tabloid newspapers this seems unlikely to become a plank of the British negotiating position at Maastricht.

R is for referendum, demanded by some Conservative MPs and, more recently, by Paddy Ashdown, in the belief that matters of such constitutional importance cannot merely be left to parliament.

R is also for Carlo Ripa di Meana, the flamboyant European environment commissioner and another Brussels bogeyman thanks to his recent ill-judged call for the UK to stop work on seven road and rail projects which allegedly flout EC legislation. In Brussels his decision to send a "personal letter" to Malcolm Rifkind, the transport secretary, was judged to be undiplomatic – but so was John Major's intemperate reply.

S is for sovereignty. The right of politicians to struggle for the better part of their lives for the privilege of staying up half the night in cramped offices at Westminster to be told by a government whip how to vote on the Social Security (Miscellaneous Provisions) Amendment Bill. S is also for the Speaker, Bernard Weatherill, who will decide who speaks after the Tory and Labour party leaders in the Commons debate.

T is for the thunder gods and Margaret Thatcher whose every public utterance on Europe whips up storms in the party. She cows some ministers and is worshipped by others loyal to Thatcherism. But her influence may wane as each Euro-sceptical outburst debases her currency.

Norman Tebbit, former party chairman, is an anti-federalist whose frequent comments on Europe can still produce thunderclaps. Teddy Taylor, MP for Southend East and arch-anti-federalist, continues to lash against the government's weather-proof coating.

U is for "ever closer union", the present wording of the EC treaty, and Britain's preferred description of the community's goal.

V is for veto, considered by anti-federalists to be the UK's magic weapon. In fact, vetoing the treaty might simply provide the excuse the other community members need to move ahead to another form of European union without the UK.

W is for Waterloo, a village 11 miles from Brussels and scene in 1815 of a British victory over European neighbours. John Major's negotiating tactics at Maastricht are expected to be subtler – but the scale of his victory might not be as great.

X is for xenophobia – which will not, of course, be an issue when the Commons debates Europe.

Y is for British youth – which is more enthusiastic about EC integration than the older generation. The ICM poll showed 41 per cent of those aged between 18 and 24 would like the EC to develop into a single community with common laws, institutions and opportunities.

Z is for the Zero Option – no agreement at Maastricht – which would not necessarily bring about the end of civilisation. If the EC leaders miss their self-imposed deadline they could have a second shot at signing a revised treaty during the Portuguese presidency, which follows, or they might even hold an emergency summit shortly after Maastricht.

Odd one out wrestles with alien concept

By David Buchan in Brussels

CONSTITUTION-WRITING is alien to Britons; doubly so when doing it with foreigners.

There are some 220 pages of proposed additions and revisions to the Treaty of Rome to establish European Political Union (Epu) and economic and monetary Union (Emu). These alone are longer than the entire US constitution.

These are the main issues:

□ Federalism: This is the single most controversial word in the entire negotiations. Britain wants to keep the Treaty of Rome's present words about "an ever-closer union". Most of its partners back the Dutch presidency's text which talks of "a gradual process leading to a union with a federal goal".

Underlying this semantic tussle is a sharp philosophical divide. The majority of EC states want treaty language that sets some kind of final destination for the community. The UK accepts that the journey of "ever-closer" European integration should continue, but without the community train ever pulling into a terminus marked "federal union". Curiously, the UK accepts the centralised notion of "union", but not the adjective "federal" which connotes decentralisation.

Since Epu will not be allowed to fail on a single word, the F-word will probably disappear at Maastricht.

□ Scope: The EC already tackles a wide agenda, partly because so many policies can be justified as flowing from its avowed goal of creating a single market. Most EC states want to make this agenda wider still, with new chapters on industry, energy, infrastructure, health and education in the treaty. The UK dislikes any new "competences".

In one of the first proposed trade-offs to emerge, the Dutch presidency (with support from the European Commission) last week suggested dropping the idea of separate chapters on energy, tourism, consumer protection and civil disaster planning, in return for more majority voting in other areas of legislation. The UK likes the first, but not the second part of this deal.

□ Efficiency: For most of the 12 member states, this can only be achieved by passing more laws in the council of ministers with qualified majority voting (QMV) – not by unanimity that allows a single country to block a measure. The UK dislikes virtually any extension of QMV.

At present, QMV applies to measures directly related to workers' health and safety. The new draft treaty would extend QMV to legislation on "the conditions of work" and "information and consultation of workers". Unanimity would be retained for any measures touching social security systems and union rights. The UK is sure to fight these changes, which have the strong support of almost all other EC states, right up to Maastricht.

Another sensitive proposed extension of QMV is in the environmental field. Here the UK will probably yield, because it is becoming clear that common environmental standards are vital for a barrier-free internal market.

□ Democratic control: The UK gave ground last week in agreeing to strengthen the Strasbourg parliament's law-making role, by allowing it to directly negotiate its amendments with the council of ministers and to veto an EC bill which does not incorporate its amendments. Though Germany is still quibbling, the 12 seem to have more or less agreed this mechanism – but not what areas of legislation it should apply to.

The UK says it should only apply to the internal market and to framework laws on high-tech research and the environment. But most other countries are pushing for a longer list of co-decision areas which include infrastructure, health and culture.

□ Immigration, asylum and policing: The draft treaty basically set this area of increasing co-operation among the 12 outside the standard EC procedures which involve commission proposals, parliamentary votes and European Court verdicts. This would suit the UK, were it not for the fact that, under very strong pressure from Germany, the draft treaty says that a common visa policy should be decided by QMV under standard EC rules.

□ Common foreign/security policy: Special rules would apply here, too. But the 12 would no longer just informally concert their foreign policies. Instead, they would systematically engage in "common actions", which they would be committed to defend and not to undermine.

The UK is the only country to jib at the concept of "common actions". Most of its criticisms are levelled at the plan to introduce some form of majority voting into foreign policy. The draft treaty proposes that EC leaders, at their regular summits, would reach decisions by consensus on areas of common action, but putting such common action into practice would "as a general rule" be taken by majority vote.

□ Defence: The relatively relaxed US attitude towards "a European defence identity", endorsed at the recent Nato summit, has made the UK ready to contemplate language about a future European defence policy.

The problem for the UK now is not that the EC treaty may have too much on defence in it, but too little. In particular, the government wants the treaty to be accompanied by a detailed declaration setting out that defence efforts will be focused on the Western European Union and that this grouping of nine of the EC states will be as closely linked to Nato as to the EC itself.

□ Emu: There are four main outstanding issues. First, economic convergence in the run-up to Emu in the late 1990s. Strict standards are to be set by which it will be judged whether countries are economically fit to enter monetary union. On present performance, Britain would be well placed to meet the criteria, which it supports.

Second, the European Monetary Institute (EMI). This would be set up in 1994, at the start of stage two to Emu, and be replaced by the European Central Bank (ECB) after the decision to go to a single currency is taken.

France wants the EMI to look as similar as possible to the ECB, and to have some reserves; Germany and the UK want a minimalist EMI, which would not threaten national control over monetary policy, until the fateful decision to go for Emu is taken.

Third, the let-out clause. The UK's battle to let a future parliament take any final decision to abandon sterling is won; the only question is whether the let-out will be limited to Britain (which the government wants to avoid), or available to all.

Last, economic discipline in Emu. Sanctions, ranging from fines to public denunciation, are proposed to deter countries from overspending/borrowing in a way that would undermine Emu. The UK believes that fiscal discipline would be needed, but that it should be self-imposed.

Ashdown backs Europe referendum

By Ralph Atkins

A REFERENDUM on European union was backed by Mr Paddy Ashdown, Liberal Democrat leader, yesterday as the opposition parties completed amendments to the motion the government will present in Wednesday's Commons debate.

The public is excluded from debate on political and economic union, Mr Ashdown said. In contrast to Euro-sceptics in the Tory party, he believed voters would be positive about integration and said parliament was "unrepresentative". He envisages a referendum after parliament votes on the Maastricht settlement, with the electorate having the right to reject the package.

The Liberal Democrats' amendment, to be published today, will stress the benefits of signing a deal at Maastricht, and will urge the UK to accept a single currency as soon as possible.

Labour will also today seek to portray itself as more pro-European than the government.

It will file an amendment disputing Tory claims to be at the heart of Europe and stress Labour's commitment to the social aspirations of the draft treaty on political union.

At a Westminster press conference tomorrow, Mr Gerald Kaufman, shadow foreign secretary, and Mr Tony Blair, shadow employment secretary, will emphasise the party's enthusiasm for the aim of "economic and social cohesion" in Article Two of the draft.

Speaking on BBC Radio, Mr Kaufman opposed a referendum, saying it "would require simplistic questions to be phrased which would not get satisfactory answers". The general election would give the electorate a chance to voice its opinion.

However, he said that the provisions of the social charter were "at the heart of the progress we want to make inside the European Community".

Mr Kaufman said Labour would accept a single currency, given the right conditions. Those were a politically accountable central bank and policies on economic convergence, unemployment and regional development.

Writing in the Observer, Mr Ashdown said: "The treaties to be agreed in Maastricht will constitute the most significant changes to the British constitution since the war, save for joining the EC itself...

"But the evidence of our eyes and ears tells us that parliament cannot be trusted to deal with the changes on its own. Westminster is unrepresentative of public opinion, and it has engaged in no real debate on the issues.

"We will embark on this journey after the minimum of public discussion."

UK NEWS

Ramsden faces plea to US for his extradition

By Louise Kehoe in San Francisco

BRITAIN is seeking extradition from the US of Mr Terry Ramsden to face fraud charges in connection with dealings in the Japanese equity warrant market through Glen International, the investment firm he controlled.

The former investor, known for his lavish lifestyle and horse-racing interests as well as his dominant role in the market for Japanese equity warrants, was arrested at the Beverly Hills Hotel in Los Angeles in early September. He has been held without bail since then, pending an extradition hearing. No date has been set, but it is believed that the case will be heard before the end of the year.

Mr Ramsden is expected to contest the extradition application. His lawyer could not be reached for comment.

The charges Mr Ramsden faces in the UK, following an investigation by the Serious Fraud Office, include fraudulent trading, obtaining property by deception, evading debts by deception, false accounting and making false statements to prospective investors and to investigators.

He is accused of dishonestly obtaining funds and credit for Glen International over a four-year period ending in December 1988 from Den Norske Creditbank ($26.8m), Shearson Lehman Brothers (£57.4m), Nikko Securities ($45.1m) and Cosmo Securities ($21.6m plus SFr50.1m plus SFr68.4m, plus $8m) and others. He is also alleged to have used deception to obtain revolving credit facilities totalling $185m from National Commercial Bank.

Mr Ramsden's investment company, Glen International, was a substantial trader in Japanese equity warrants, a high-risk, volatile form of investment instruments. Glen traded in warrants that were largely illiquid, making it difficult to ascertain their true value. At the end of 1986, Glen International held shares and warrants valued by the company at £430.3m.

A racehorse owner and gambler, Mr Ramsden appears to have had little difficulty in spending his substantial income. In 1985 alone, his gambling losses are said to have totalled £26m, and the following year he lost a further £23m.

On several occasions his investment operations came close to collapse when trades failed, or were rescued at the 11th hour. Stockbrokers and bankers in London, Tokyo, Los Angeles and Toronto became enmeshed in highly complex and risky deals based largely, it appears, on their confidence in Mr Ramsden.

Among those who came near to losing substantial funds as a result of dealings with Glen International was Shearson Lehman Brothers' Los Angeles office and Charles Stanley, the London stockbrokers.

Glen ceased trading in September 1987 with recorded debts of £258m and a deficit of £124m. It paid off its debts to all smaller creditors leaving debts of $98m, owed to four Japanese institutions; Nikko, Cosmo, Daiwa and Taiheiyo, which were assumed by Mr Ramsden.

Managing the pennies for Guy's

Alan Pike on the hospital at the heart of the health reform debate

GUY'S HOSPITAL is the rifle range where opponents of the government's health reforms engage in target practice against the entire programme.

Its international reputation and location in central London have helped it attract more political and media attention than any of the National Health Service's other self-governing trusts set up in April.

When, in the spring, Guy's announced that it was heading for a £7m overspend this financial year, critics said it demonstrated that the NHS reforms were financially flawed. When, last week, Guy's management said that the trust expected to break even, opponents accused the government of putting pressure on the hospital to manufacture good news.

The man in charge of Guy's throughout these events has been Mr Peter Griffiths – another reason for the heavy focus of attention.

Before becoming chief executive of the Guy's and Lewisham Trust earlier this year, Mr Griffiths was deputy chief executive of the NHS management board in Whitehall. That gave him a leading part in the national development and introduction of the reforms. Opponents would not grieve at the thought that he is now having difficulty making them work.

Mr Griffiths replies in language which concedes little to critics of the reforms. He says Guy's and its sister hospital at Lewisham are more productive, efficient places and that the trust is moving forward faster than he first expected on a five-year programme of radical change. Labour costs account for some 70 per cent of NHS expenditure, and savings in this area are the biggest ingredient in the financial improvement announced by Mr Griffiths last week. About 400 posts have been eliminated – mostly by natural wastage or voluntary redundancy – cutting labour costs by more than £5m.

The productivity of the remaining employees has risen – by the end of the financial year the hospital is expected to have treated 10 per cent more patients than had been planned – and the 1,200 lowest paid staff will be rewarded with bonuses of £6 a week which will be above nationally agreed rates starting in January.

"This is an absolutely real turnaround," says Mr Griffiths. "There is nothing mystical or massaged about £5m disappearing off the wage bill. There is nothing massaged about 400 posts having disappeared. There is nothing massaged about £6 per week actually in people's pay packets.

"I am not saying we have solved all life's problems, but we are signalling – we sincerely hope and certainly believe – that we have been through the worst."

London teaching hospitals such as Guy's have a particular need to improve efficiency and raise the added value of their services. An inquiry set up by Mr William Waldegrave, health secretary, last month will lead to hospital rationalisation in the capital. To keep Guy's competitive, Mr Griffiths sees the need for fewer, but more flexible and better trained and rewarded staff.

Ashley Ashwood

A question of trusts: Peter Griffiths (right) with Duncan Nichol, NHS chief executive

The trust's development plans will include turning many support staff into multi-skilled, generic workers. One of the management's pledges is to reduce junior doctors' hours within the next 12 months. This will involve removing from the juniors a number of functions – from taking blood samples to clerical duties.

Mr Griffiths says: "Almost anywhere you look in a hospital, people can volunteer ideas of how they could work more effectively."

In general terms, he says, the future for hospitals such as Guy's will involve employing "smaller numbers of people more appropriately motivated and rewarded and more highly trained, rather than larger numbers of often de-motivated, ill-rewarded and untrained people." What might this mean specifically for the Guy's and Lewisham trust? "If we stayed the same in terms of the number of patients we attracted, I would be very surprised in five years' time if we had not found ways of having probably 10, 15 or 20 per cent fewer employees delivering the same quantum of health care. But they would be truly well rewarded, trained and motivated."

Mr Griffiths says he understands the concerns of those who worry about the business language of the NHS reforms and fear the advent of the "baked-bean factory approach to health care". It would be worth trying to bring about the changes envisaged at Guy's only if existing quality levels could be maintained and improved, and he was convinced that with better training and deployment of staff this could happen.

The proposed £6 supplement for lower-paid staff is an example of trust hospitals' new freedom to set their own pay and conditions.

Union representatives at the trust realised they were dealing with a direct employer who had the freedom and authority to act, rather than a distant national employer.

Under the contract-based system of funding introduced this year, central London teaching hospitals such as Guy's are attracting less routine work from health districts outside their own localities. Mr Griffiths says: "Our strength for the future is in focusing on those things that are really specialist."

London hospitals might well have to charge more for services, so unless Guy's could demonstrate a qualitative difference, they would not win the contracts.

By the end of this year, a review of all the trust's clinical activities will have been completed. This is likely to lead to radical changes, such as consultants spending less time in the hospital's Guy's Tower – a literal and sometimes ivory tower – and working instead in local health centres.

Lloyd's may relax export-credit rules

By Richard Lapper

THE AUTHORITIES at the Lloyd's of London insurance market are poised to relax long-standing rules against syndicates underwriting credit and insolvency risks.

One specialist broker said underwriters might be allowed to insure certain classes of export-credit risks as early as next year.

Underwriters have not been allowed to underwrite any commercial credit risk since a financial scandal in the early 1920s. That ban has left the market open to specialist credit and export-credit insurers such as Trade Indemnity of the UK and Hermes of Germany.

Within the past few weeks, however, Lloyd's war, civil war and financial-guarantee sub-committee is understood to have approved in principle the idea that underwriters should be allowed to insure some export-credit risks. The sub-committee consists of the Lloyd's underwriters active in the field of financial and political risks.

The subcommittee is working on the procedural and regulatory aspects of such insurance deals. Lloyd's relaxed constraints on insuring credit risks arising from default by public-sector bodies more than 10 years ago, and now provides an important market for so-called contract-frustration covers.

"The distinction between political and commercial risks means that the Lloyd's market could be needlessly restricting itself," one broker commented.

Control of courts may be switched

THE FIRST step towards setting up a ministry of justice could be taken by the government this week, as Mr John Major, the prime minister, is expected to approve a shift in responsibilities between the Home Office and the Lord Chancellor's Department, Alison Smith writes.

Lord Mackay, lord chancellor, and Mr Kenneth Baker, home secretary, have disagreed about which department should deal with magistrates' courts.

These duties now lie with the Home Office, but Sir Robin Butler, head of the Civil Service, is expected to advise Mr Major this week that the responsibilities should be transferred to the Lord Chancellor's Department.

They include matters relating to magistrates' courts' procedures, administration and buildings, together with the appointment of justices' clerks.

Sponsor sought for fraud bill

THE Consumers' Association is trying to find a backbench sponsor for a parliamentary bill which could, it says, prevent cheque fraud.

The fraudulent cashing of cheques last year cost the UK £34.3m, almost double the previous year's total of £18.5m, according to the Home Office.

The association says that its bill would in effect stop frauds of this type by giving legal status to the words "account payee only" on a crossed cheque.

Talks on funds for Fullemploy

HOME OFFICE officials will today meet representatives of Fullemploy, the national ethnic-minority training charity, to discuss the future of public funding for the organisation.

Earlier this year the Home Office decided against making an expected £250,000 grant to Fullemploy after a Charity Commissioners' inquiry. The commissioners criticised aspects of Fullemploy's past administration, but said that, on the basis of subsequent improvements and commitments given by the charity's trustees, their requirements were now being met.

National Savings

A NET £273.4m flowed into National Savings during October, according to government estimates released yesterday. Income bonds contributed most, with a net inflow of £73.5m on sales of £123.9m. There was a slightly greater flow of funds into index-linked certificates than into fixed-interest bonds.

MANAGEMENT

Putting value on the lines

Network SouthEast is making its assets sweat. Richard Tomkins explains how in five easy steps

It is Britain's 15th biggest company in asset value, but no one knew it until now. Even its managing director has only just discovered the fact.

This is the story of what happened when British Rail's Network SouthEast looked at its tracks and trains one day and found they were worth £4.2bn – three times what it had thought.

When railways were private, the companies that owned them took a close interest in their assets. Their value was declared in the balance sheet and appropriate interest and depreciation charges were set against profits.

On nationalisation in 1948, that changed. The purpose of the newly-merged railways was to provide a social service rather than to run a commercial operation. The cost of tracks, tunnels, signalling and stations was written off: interest and depreciation charges were met by the taxpayer, and the existence of the assets was recognised in BR's books only by the maintenance charges they incurred.

Now the tide has turned again. With the government pushing BR towards privatisation, the railway is being put back on a commercial footing. In the biggest reorganisation since nationalisation itself, BR's entire asset base – stations, tracks, trains and staff – is being split up into and handed over to six subsidiary businesses: InterCity, Regional Railways, Network SouthEast, European Passenger, Trainload Freight and Railfreight Distribution.

The result is that, for the first time since 1948, railway managers are being given commercial responsibility for their assets. For some, this has brought unpleasant surprises.

At Network SouthEast, the division responsible for British Rail's commuter operations in London and the south-east, managing director Chris Green has discovered that his asset base is four times annual turnover even after charging the highest commuter fares in Europe. So while his company is Britain's 15th biggest in assets, it is 135th in terms of turnover, he says.

Putting Network SouthEast on a commercial basis will for the first time expose the real cost of those assets. The implications are far-reaching. Full depreciation and financing charges will increase working costs £1bn a year to £1.6bn, with asset costs rising from 13 per cent to 40 per cent of the total.

Suddenly, the cost of wages and materials has slipped down Network SouthEast's list of priorities. Instead, asset management has become the prime business target for the 1990s. "Every asset is now a potential millstone to be avoided unless it can be converted into a proven source of additional wealth," says Green.

Already, the onslaught has begun. Green has adopted five rules to extract maximum value from the asset base.

● Ensure asset ownership. Common assets "held centrally" are a recipe for waste, says Green. Hundreds of locomotives have been dispensed with at £2m a throw by forcing sub-businesses to take responsibility for their own locomotives. Today, even BR's civil engineers have their own locomotive fleet.

● Cut the asset base. A 5 per cent reduction in assets is worth £12m a year to Network SouthEast in reduced depreciation, says Green. Network SouthEast's priority is therefore to manage the tightest possible peak-period operation with absolutely no spare trains, tracks, platforms or staff. Having trains out of service for maintenance in the rush-hour is now regarded as a crime. And nowadays, two or even three trips are being extracted from trains each rush hour.

● Make the assets sweat. Creativity should deliver a second and even a third profit from the same assets, says Green. Stations are not just for selling tickets: a second profit can be exploited by their trading potential with shops, pubs and buffets. A third profit can come from exploiting the property development potential of available space.

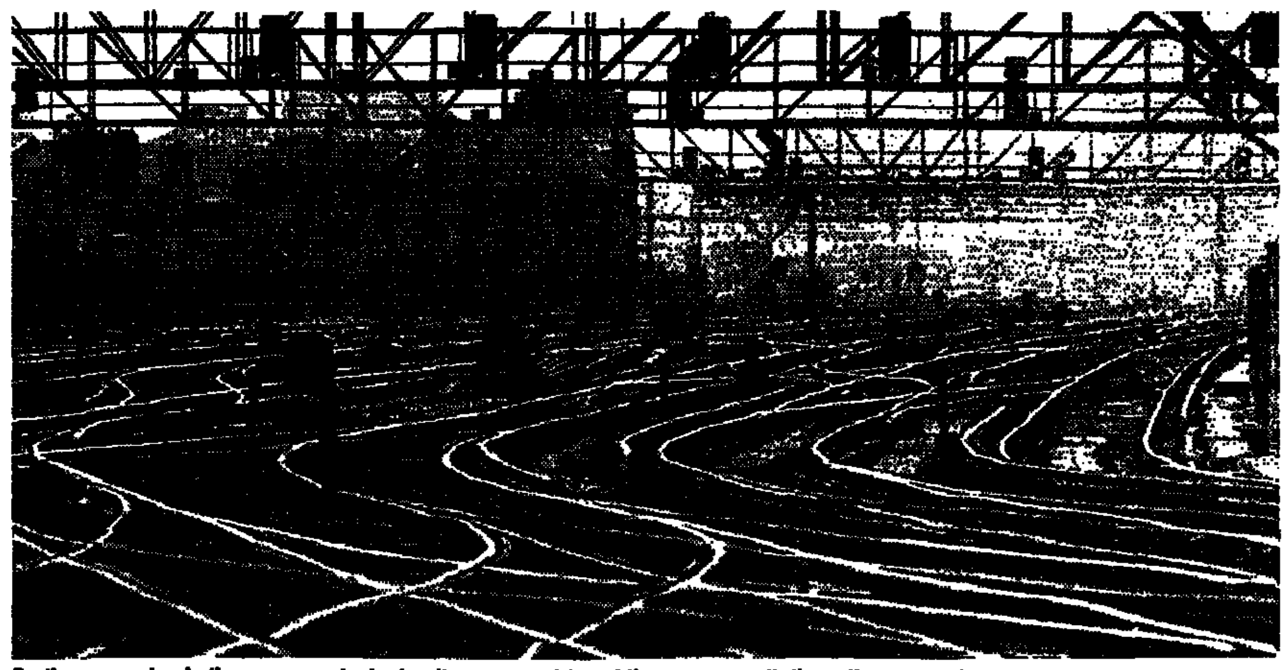
● Seek asset synergy: make the profits from two plus two assets equal five. Example: a fill-in electrification scheme between Portsmouth and Southampton, where a pocket of old diesel trains operated within a largely electrified network. The line was electrified for the cost of replacing the trains. Electric trains on adjacent lines were extended to run on the newly-electrified tracks, and passenger travel rose by 15 per cent.

● Be creative. Low-cost ingenuity can save millions of pounds in new assets, says Green. Examples: one division wanted a £5m communications system but solved its problem with pocket pagers for set-up costs of £14,000 and running costs of £15,000 a year. Network SouthEast replaced some vandal-prone three-section train seats with one-piece InterCity seats destined for the scrap heap. And £50,000 a year has been saved by re-setting train heating thermostats one degree lower.

All this may be old hat to the average business manager, but it is new to British Rail. It is newer still to its passengers, some of whom may wonder who is going to pay the price.

The unspoken answer is that they are, one way or another. Given the improbability that the government will increase the railway's subsidies, the big increase in the cost of servicing Network SouthEast's asset base will ultimately have to be with a correspondingly increase in revenues – or, in plain English, fares. Alternatively, the assets can be squeezed still further, but the implication is that the train heating thermostats will have to be turned down by more than one degree, or even two.

Chris Green described his discovery of Network SouthEast's assets to a recent conference on asset management. Illustrated reprints of his speech are available free from the Public Affairs Department, Network SouthEast, Network House, 1 Eversholt Street, London NW1 1DN. Enclose a large SAE.



On the wrong track: the company looked at it assets and found they were worth three times what it had thought

Bigger benefits from better buying

Charles Batchelor reports on a fashionable new look for the frumps in purchasing

Purchasing has traditionally been among the least glamorous of corporate activities. It brought to mind images of whey-faced clerks processing order and contract documents.

But now purchasing is coming out of the Dickensian era as companies realise the benefits of actively managing their buying. A saving of £1 at the purchasing stage can have the same impact as making £10 worth of sales.

The UK government has given a boost to purchasing by forcing hide-bound state organisations to adopt more commercial purchasing policies. At the same time newly privatised companies – 46 to date, two-thirds of the state trading sector – have had to adapt to the commercial environment.

The extent of the change was outlined at a recent Department of Trade and Industry-sponsored conference* on how to become a supplier to privatised companies.

As part of the state sector in the 1960s and 1970s BT (formerly known as British Telecom) bought in bulk and operated quotas – sharing demand on a non-competitive basis between designated suppliers.

"We were prepared to operate cost-plus contracts and accepted lead times well out of step with true market needs. Once a supplier, always a supplier," Brian Rigby, director of procurement services told the conference.

The liberalisation of telecommunications in the 1980s created a more aggressive approach. Negotiations were driven by price and there was no incentive for quality improvements.

In the present decade a second shift has occurred towards longer term relationships with suppliers. The aim is now to improve the quality of suppliers, to reduce costs over the entire life of the product and to improve internal efficiencies, Rigby said.

But how can a company achieve these ends? Paddy Walker, in charge of the purchasing consultancy team at accountants Coopers & Lybrand Deloitte, explains a five-point programme:

● Analyse present spending patterns. Companies typically buy in 55-70 per cent of the cost of sales compared with just 15-20 per cent in the inter-war years.

● Bring together purchasing and other departments with customers and suppliers to assess future requirements.

● Draw up a plan of future purchasing needs.

● Go to existing suppliers and say you are looking for a better balance of quality, delivery and price from a smaller supplier base. Emphasise that you want to establish a long-term partnership with these suppliers.

● "Go offshore". Open up purchasing activities to new suppliers in other countries.

These steps should allow a company to move from an unplanned approach to purchasing towards one where purchasing is a part of the overall corporate plan, says Walker.

Achieving these ends involves a complete reassessment of the way in which purchasing is organised. British Airways' purchasing has undergone fundamental change, Clive Mason, director of purchasing and supply explains.

In 1983 purchasing executives were low in the BA corporate hierarchy and had no power to challenge spending decisions. They were poorly paid, were provided with little training and had few prospects of career development. There was no policy of recruiting graduates.

By the second half of the 1980s BA's move into the commercial sector had forced a fundamental rethink. Purchasing now reports directly to a main board director. Decision-making is centralised; the purchasing team is responsible for the entire range of bought-in goods and services; and BA is able to make use of its international purchasing power to exert leverage on suppliers.

Deliberate efforts were made to recruit graduates or experienced staff with the Institute of Purchasing and Supply qualifications. Qualified or graduate staff now account for 50 per cent of BA's 300-strong purchasing staff compared with just 10 per cent in 1983. Pay has been raised, in-house training provided and better career planning introduced.

Rigby estimates that BT made an early saving of 10 per cent on purchasing costs and expects further improvements when the company moves to electronic data interchange (EDI), a system of automatic electronic ordering, invoicing and payment.

The cost of upgrading a purchasing department need not be high, says Coopers' Paddy Walker. Higher level staff will have to be recruited but computerised administration systems can remove a whole layer of clerical staff.

When large companies upgrade their purchasing operations there are inevitable consequences for their suppliers. Many will lose out and those that make the grade will be working under a far tougher regime.

As purchasing "tickets" get bigger, the smaller suppliers who cannot supply the volumes or meet quality requirements will get squeezed out.

**Bridging the Gap: Successfully Supplying the New Private Sector.*

CONSTRUCTION CONTRACTS

Major Sussex harbour project

KIER CONSTRUCTION, part of the CHB Group, is to be the main infrastructure contractor on the £25m Sovereign Harbour project near Eastbourne, Sussex.

The company has been chosen by the developers, Tarmac, to design and build an outer and inner harbour with connecting locks, protected by two breakwaters at the Sovereign Harbour.

Work is just starting and when completed in the summer of 1993 the harbour and boating facilities will form the centrepiece of the scheme.

Sovereign Harbour is being developed on a 300 acre site, including a one mile stretch of the Sussex coastline, between Eastbourne and Pevensey Bay.

Surrounding the harbour, which will initially provide around 250 berths, will be an exclusive waterside development offering a wide range of facilities and services for boat owners.

£25m orders for Trafalgar House

TRAFALGAR HOUSE CONSTRUCTION (REGIONS), the regional company formed by the integration of Cementation Construction, Monk and Willett, has been awarded contracts worth £25m.

Four road contracts have been won around the country. The largest is a £3.17m contract for the construction of a 1.7km stretch of single carriageway in Milton Keynes. Similar contracts have been awarded for the reconstruction of 2.4km of carriageway on the A456 trunk road near Dudley and the construction of 1.5km of carriageway on the A22 East Hoathly bypass between Uckfield and Hailsham. On the M50, near Hereford, the company is involved in major maintenance works, strengthening the east and westbound carriageways, including the hard shoulders, for 2.8km.

Several new contracts involve education; the largest is a £3.1m contract for a workshop and teaching block at Maidstone Mid Kent College, and at Birmingham and Leicester Universities student accommodation is being constructed. At Swingate Infants and Spinnens Acre Junior School in Walderslade, Kent the company is extending the school.

In Leeds a £1.47m contract to build 42 houses has been awarded by Leeds City Council.

Other contracts include a multi-purpose sports complex in Aberystwyth; alterations to a pool hall to form a new water park at Irvine, Scotland; the construction of light industrial units and the refit and refurbishment of office space.

Upgrading Yorkshire water facilities

TAYLOR WOODROW has won two contracts from Yorkshire Water for improvement works together worth over £4m.

The larger project involves building a reinforced concrete reservoir together with associated siteworks and pipelines at Ewden, near Sheffield. With work starting this month, the project is due for completion in December 1991.

The second project awarded jointly to Taylor Woodrow Construction (Northern) and Birtley Engineering; the Chesterfield-based materials handling specialist, is part of a major capital investment programme by Yorkshire Water on automation and refurbishment.

It calls for improving the quality of treatment at Naburn waste water plant near York, involving ground works, new treatment plant and buildings, controls and monitoring installations. Work will be in two parts, covering civil engineering and mechanical/electrical engineering, to enable the plant to remain operational.

Relieving traffic congestion in Wales

RENDEL PALMER & TRITTON has been awarded the design and supervision contract for a new £4m Western Relief Road aimed at easing congestion in Merthyr Tydfil town centre.

The 1km road, with two bridges over the River Taff, will run from the Avenue de Clichy and join the proposed A470 trunk road at Swansea Road.

The contract has been let by Mid-Glamorgan County Council and construction is due to begin in 1993.

RPT, part of the High-Point group, has already won the design and site supervision contract for the £30m 7.2km stretch of A470 between Pentrebach and Cefn Coed, which effectively bypasses Merthyr.

£15m workload for Mowlem Midlands

More than £15m of new contracts have been won by MOWLEM MIDLANDS, a division of John Mowlem Construction. The largest, worth nearly £6m, is to build a DSS office for the Property Services Agency (PSA) at Cheylesmore, just inside Coventry's inner ring road.

The five-storey building will provide 7,300 sq metres of office space within a steel-framed, brick-clad shell. An aluminium roof caps the tiered structure. Mowlem Midlands is also handling the fitting out. Work is due for completion in March 1993.

At Pendeford Rise, Wolverhampton, work is under way on the design and construction of a mixed development of 107 dwellings including semi-detached two and three-bedroom houses, 40 flats and warden's accommodation for a consortium comprising Normid, Bromford Carinthia and the North British/Harambee Housing Association. The development is in accordance with the government's initiative on affordable housing and is worth over £5m.

In Hockley, Birmingham, Mowlem Midlands has been awarded a two-phase contract by the Midland Area and Handsworth Single Homeless Housing Associations to design and construct a mix of houses and flats at Abbey Street, including associated roads, sewers, services and landscaping.

A third phase has been negotiated with Focus Housing Association bringing the total value of work in hand at Abbey Street to over £2.1m.

In Johnson Street, Wolverhampton, Asra Housing Association has awarded a contract, valued at £1.1m, to construct 26 flats, two guest rooms and warden's accommodation for completion in August 1992.

Exhibition centre expands

LAING MIDLANDS has won the £41m contract to design and construct four exhibition halls at the National Exhibition Centre, Birmingham.

The halls will provide 30,000 sq metres of extra display space. Construction work has already started and completion is set for mid-1993.

The contract, awarded by the National Exhibition Centre, also involves provision of catering, shopping and associated function rooms.

The development will be primarily a steel-framed building, clad in steel panels and architectural glazing.

Heating, ventilation and fire control installations will be state of the art for this type of building which is designed to provide great flexibility for its users.

Offices plan

The Sun Alliance and London Assurance Company has awarded the Swindon-based ISIS CONSTRUCTION a £6m 12-month contract at Kembrey Park for a two-storey air conditioned office block with basement and roof level plant rooms, external works and services.

The company is also undertaking the first phase of the infrastructure works at the west Swindon development, known as Lydiard Fields, which is located just off junction 16 of the M4 motorway.

The contract, worth approximately £2m, is with the Equitable Life Assurance Society.

Work on the development is scheduled for completion in May of next year.

Fitting windows

PLASTISEAL uPVC, part of the Plastiseal Group, has been awarded a contract by the PSA Building Management Scotland, worth £700,000, to manufacture and fit uPVC windows to 231 married quarters at Wimberly Estate Army Barracks, Inverness.

APPOINTMENTS

Rationalisation at ICI

Victor White, ICI group solicitor, is adding the post of company secretary to his job portfolio. The move is the latest sign of an extensive streamlining of ICI's top management team with several general managers retiring and not being replaced.

White will take over as company secretary on January 1 1992, on the retirement of David Allen who has held the job for the last six years. ICI has one of the biggest legal departments of any UK company employing 130 lawyers worldwide, of whom 50 are based in the UK.

The 55-year-old White gained his Law degree from London University and joined ICI's head office legal department in 1965 after a period in private practice.

ICI is in the midst of substantial internal change and, following Hanson's acquisition of a potentially hostile stake earlier this year, is anxious to demonstrate to investors that it is becoming a "leaner and fitter" business.

In the past the company might have been expected to fill the post of company secretary by promoting one of the assistant secretaries. However, by combining the role of secretary and group solicitor, ICI is reducing the number of general managers, who are one grade down from executive director. Following this reshuffle, the number of ICI general managers will have been reduced from seven to four.

Brian Hines, gm in charge of insurance and investments has retired and not been replaced and Derek Rushton, gm in charge of external relations, is retiring at the end of the year.

KPMG consultancy chairman

Colin Sharman has been named chairman of KPMG's worldwide management consultancy practice in succession to James Gannon who resigned from the post in August after just ten months in the job.

Sharman, aged 48, is also chairman of KPMG Management Consulting's UK practice and chairman of the firm's European operations. The first Britain to hold the post, Sharman has broad international experience having worked in the UK, Germany, the Netherlands, Belgium, Luxembourg, Scandinavia, Switzerland, France and the US.

He joined Peat Marwick McLintock in 1966 after qualifying as a chartered accountant with Woolgar Hennel & Co. in 1965 and was made a partner in 1972.

As chairman of KPMG Management Consulting's practice committee, which serves a co-ordinating function between national practices, Sharman will be in charge of the firm's offices in more than 80 countries. The consulting group has 741 partners, more than 5,600 professional staff and had fee income of $784.5m in the year to end September 1990.

His appointment is intended to strengthen the consulting operations in the wake of Gannon's surprise resignation; this followed reports that KPMG had suffered its first annual loss in consulting in the year to end June. Management consulting accounts for about 20 per cent of the group's annual revenues.

Insurance moves

■ **Mike Ward** has been appointed chief underwriter at FRIENDS PROVIDENT on the retirement of **David Mountain** next year.

■ **Timothy Scrivener** has been appointed a director of DOMESTIC & GENERAL GROUP.

■ **Ian Rushton**, vice chairman of Royal Insurance Holdings and chairman of the Association of British Insurers, has been appointed a director of BRITISH INVISIBLES.

■ PRUDENTIAL has appointed **Mike Pinder** as marketing director of its life and pensions business. He joins from Commercial Union.

■ **Clive Green, Gordon Marsh, Rodney Spencer** and **Dennis Thornton** have been appointed directors of DENIS M CLAYTON (HOLDINGS).

■ The DOMINION INSURANCE COMPANY announces that **M A Gore** has been appointed chief executive.

■ JOHNSON & HIGGINS announces that **Daniel Oades** has been appointed a director of its financial group.

THE WEEK AHEAD

ECONOMICS

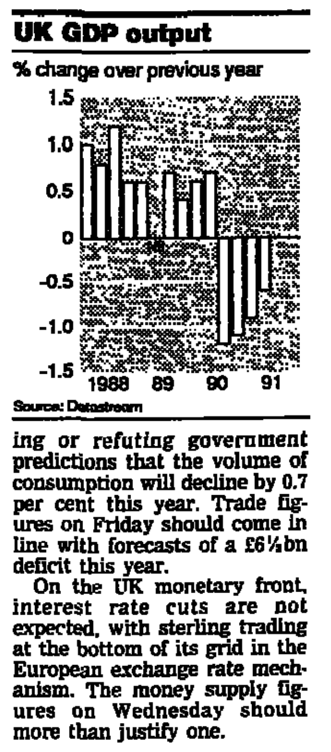
GDP should show return of growth

WITH this week's release of the UK gross domestic product data for the third quarter should come official proclamations that the recession is over. The median market expectation is for a rise of 0.5 per cent in GDP after four quarters of contracting activity.

However, it is a rise in North Sea oil output that will cause the predicted third-quarter rise, and other data in the week should make it clear that a widely-based recovery will not take place until the fourth quarter at earliest. Last week's industrial production figures showed a rise of 1 per cent over the third quarter but this was entirely a result of the 4 per cent increase in energy production over the period.

Outside the UK, Japanese statistics will be interpreted as justifying the cut in the official discount rate; a rise in German rates is suspected from the Bundesbank meeting in Frankfurt on Thursday.

UK data will continue to be judged against the official Autumn Statement forecasts for the economy. Today's retail sales data will be seen as backing or refuting government predictions that the volume of consumption will decline by 0.7 per cent this year. Trade figures on Friday should come in line with forecasts of a £6½bn deficit this year.



On the UK monetary front, interest rate cuts are not expected, with sterling trading at the bottom of its grid in the European exchange rate mechanism. The money supply figures on Wednesday should more than justify one.

Other events and statistics, with median market forecasts from MMS International, the finance research company in brackets, include:

Today: UK, CBI survey of the distributive trades for October (100th survey), October retail sales, provisional (m/m 0.5 per cent), October public sector borrowing requirement. Canada, September wage settlement increases, inventories to shipments ratio (1.50:1), unfilled orders (down 0.5 per cent).

Tomorrow: UK, output-based gross domestic product for third quarter preliminary (q/q 0.5 per cent, y/y down 2.1 per cent), manufacturers and distributors' stocks, third quarter provisional. US, October merchandise trade balance (down $6bn), imports ($40.7bn), exports ($34.5bn). Japan, September personal consumption expenditure, personal income and expenditure, October money supply (y/y 1.9 per cent). Canada, September merchandise trade balance (C$1bn).

Wednesday: UK, September construction new orders, provisional, October main British banking groups monthly statement, provisional estimate of money supply (M0 m/m 0.4 per cent, y/y 2.4 per cent, M4 m/m 0.5 per cent, M4 bank lending £2.5bn). Germany, public holiday. US, housing starts for October, 2- and 5-year note auctions announced. US, September housing starts (1.02m), building permits. France, September industrial production.

Thursday: UK, new earnings survey. Germany, Bundesbank council meeting. US, money supply, initial claims. Canada, September retail sales (1 per cent).

Friday: UK, October balance of payments current account (down £550m) and visible trade balance down £750m) and overseas trade figures. US, Congress goes into recess. France, third-quarter gross domestic product (0.4 per cent). Treasury statement for October (down $30bn).

During the week: Germany October producer prices (m/m 0.2 per cent, y/y 2.4 per cent), wholesale price index (0.3 per cent).

Rachel Johnson

RESULTS DUE

THE SECOND big wave of interim results continues to roll through the market this week with a number of big utilities, consumer and food groups reporting.

The main interest in tomorrow's third-quarter results from BAT Industries will concern what the tobacco and financial services conglomerate says about mortgage indemnity losses at Eagle Star, its UK insurance subsidiary. Following last week's big provisions from Royal Insurance, analysts expect Eagle Star could write off £70m-£100m on domestic and commercial indemnity policies. Elsewhere, steady progress is expected from the tobacco business and Allied Dunbar, and group pre-*tax profits should be about* £250m-£260m.

The following day another large insurer reports. Commercial Union is expected to do better than either Royal Insurance and General Accident, which reported their nine-month losses this week. This is mainly because CU has only a minimum exposure to mortgage indemnity business. Even so CU will still register pre-tax losses, predicted to be between £28m and £55m, compared with a profit of £27m at the same stage last year.

Not everyone in the insurance sector is struggling. Sedgwick and Willis Corroon, the UK's biggest insurance brokers, are both expecting to report pre-tax profits tomorrow and Wednesday respectively.

In the food sector, analysts are hoping for £330m pre-tax for the 12 months to September 1991 from Associated British *Foods today, compared* to £317.4m for the 12 months to March 1991. That would allow eps to rise to 48.5p (46.9p) and could support a rise in the dividend to 13.5p (12.2p).

The main uncertainty remains milling and baking – the company warned six months ago that trading was tough, and the lumpiness of the investment income before and after last year's acquisition of British Sugar adds further unpredictability.

Milling and baking is also the main concern in Rank Hovis McDougall's results on Wednesday for the year to August. Nearly half of the group, it will determine whether the group can reach £147m pre-tax (£133.2m). That figure would still mark a decline in trading, given last year's £17m exceptional cost. Analysts are nevertheless hoping that a rise in earnings to 28.5p (25.2p) would support a rise in the dividend to between 13.5p and 14p (12.74p).

Whitbread opens a round of brewers' results on Wednesday which are expected to reflect the tough trading conditions this year in lower or static pre-tax profits. The recession and poor weather in the spring and early summer have hit beer volumes and retail operations.

Analysts forecast first-half profits of between £134m and £140m for Whitbread, down by 8-11 per cent on last year's £152.5m. However, the company is regarded as one of the better placed in the sector to benefit from any economic upturn, and the interim dividend is expected to be lifted comfortably above inflation.

Materials group Courtaulds announces its half-year results on Wednesday. Profit forecasts range from £93m to £98m compared with £87m last year.

Analysts will be carefully watching the performance of the fibres and films operations which are expected to post significant improvements.

UK COMPANIES

TODAY
COMPANY MEETINGS:
Amstrad, Tower Thistle Hotel, St. Katharines Way, E., 3.00
London & Strathclyde Trust, Gartmore House, 16-18, Monument Street, E.C., 2.30
Melville Group, Cap House, 9-12, Long Lane, E.C., 10.00
BOARD MEETINGS:
Finals:
Assoc British Foods
Diploma
F & C Eurotrust
Glasgow Inc. Trust
Interims:
BAA
BET
Babcock Intl.
British Inv. Trust
Chamberlin & Hill
Dunhill
EMAP
Mercury Asset Mngmt.
Oglesby & Butler
Stratton Inv Trust
Warburg (SG)

TOMORROW
COMPANY MEETINGS.
Merivale Moore, 35, Portland Place, W., 12.00
Trace Computers, 224-232, St. John Street, E.C., 2.30
BOARD MEETINGS:
Finals:
Cobalt
Huntingdon Intl.
Interims:
Anglian Water
Bio-Isolates
CML Microsystems
Caskat
Fleming High Inc. Inv. Tst.
Goldsmith
Govett American Fd.
Hazlewood Foods
Readicut Intl.
Thorn EMI
Volex
Young & Co's Brewery

WEDNESDAY NOVEMBER 20
COMPANY MEETINGS:
AB Electronic Products, Copthorne Hotel, Cardiff, 12.00
CALA, 42, Colinton Road, Edinburgh, 10.00
Domestic & General Group, Co. of Watermen & Lightermen, 189, St. Mary-at-Hill, E.C., 11.30
EFM Dragon Trust, 4 Melville Crescent, Edinburgh, 12.00
High-Point, Founders Hall, Bartholomew Cl., E.C., 12.00
Thorntons, Assembly Rooms, Derby, 11.30
BOARD MEETINGS:
Finals:
Fulcrum Inv. Trust
RHM
Shani
Stratagem
Interims:
Courtaulds
Forward Group
Foster (John)
Parkland Textile
Scantronic
Vosper Thornycroft
Wagon Indl.
Whitbread
York Waterworks

THURSDAY NOVEMBER 21
COMPANY MEETINGS:
Barratt Devs., Plaisterers Hall, 1 London Wall, 2.30
Everest Foods, Goldthorn Hotel, Wolverhampton, 10.00
GR (Hldgs.), New Connaught Rooms, Great Queen Street, W., 12.00
Galliford, Penns Hall Hotel, Penns Lane, Walmley, Sutton Coldfield, 12.15
Lucas Inds., Birmingham Metropole Hotel, NEC, Birmingham, 12.00
Raine Inds., Assembly Rooms, Derby, 12.00
Throgmorton Dual Trust, 155, Bishopsgate, E.C., 12.00
Trafford Park Estates, United Trading Estates, Old Trafford, Manchester, 10.00
BOARD MEETINGS:
Finals:
Barratt (Henry)
Ferry Pickering
Morland
Interims:
Black Arrow
British Gas
Chloride
Hogg Robinson
Locker (Thomas)
London Intl.
Lowndes Lambert
Property Partnerships
Rothmans Intl
Storehouse

FRIDAY NOVEMBER 22
COMPANY MEETINGS:
BM Group, Ironmongers Hall, Barbican, E.C., 12.00
Bailey (Ben) Construction, Moat House, Doncaster, 12.00
Bolton Group, 334A, Goswell Road, E.C., 11.00
Great Universal Stores, Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Lyles (S.), Wakefield Post House Hotel, Queens Drive, Ossett, 12.00
Maunders (John), Midland Plaza Hotel, Manchester, 12.00
Northern Industrial Improvement Trust, Blue House, Washington, Tyne & Wear, 12.00
Renishaw, Post House Hotel, Thornbury Road, Alveston, Avon, 12.00
BOARD MEETINGS
Finals:
McCarthy & Stone
Wills
Interims:
Bulgin (AF)
Foreign & Colonial German Inv Trust
Worth Inv. Trust

SATURDAY NOVEMBER 23
BOARD MEETINGS:
Interims:
House of Lerose
Company meetings are annual general meetings unless otherwise stated

DIVIDEND & INTEREST PAYMENTS

TODAY
Aon Corp. 40cts.
Argos 2.1p
Bank of Scotland Und. Fltg. Rate Prim. Cap. Nts. $329.38
Dagenham Motors 1.75p
Grampian Hldgs. 1.7p
MAI 4.1p
PFG Hodgson Kenyon Intl. 1p
Sanwa Singapore Gtd. Fltg./Fixed Rate Nts. 1999 $3320.87
Sheffield Insulations 1.8p
T & N 3.6p
Treasury 10% 2004 5pc.
Trio Inv. Tst. 1p
Woolwich Bldg. Soc. Fltg. Rate Nts. May 1994 £284.90
Yasuda Tst. Asia Pacific Fltg./Fixed Rate Gtd. Nts. 2000 $3887.71

TOMORROW
Amstrad 1p
Boot (Henry) 7.5p
Exchequer 9% 2002 4.5pc.
Helical Bar 2.4p
Upton Park 2.5p
Minorco 34cts.
Treasury 10½% 1999 5.5pc.

WEDNESDAY NOVEMBER 20
Bankers Tst. Intl. Capital NV Gtd. Fltg. Rate Sub. Nts. 1998 $150.14
Caterpillar 30cts.
Exchequer 12% 1998 6pc.
Intl. Bank for Rec. & Dev. 12% Nts. 1995 6pc.
Minerals Oils & Res. 22cts.
Portugal (Rep. of) 9% Ln. (Reg.) 2016 4.5pc.
Refuge 9p
Tokyo Electric Power Fltg. Rate Nts. 1992 Y380438
Treasury 2½% IL 2003 1.25pc.
Do. 2½% IL 2009 1.25pc.
Wells Fargo Fltg. Rate Sub. Nts. Feb. 1997 $150.14

THURSDAY NOVEMBER 21
AB Electronic Prods. 0.1p
Britannia Bldg. Soc. Fltg. Rate Nts. 1994 £1375.27
Christiania Bank OG Kreditkasse Sen. Fltg. Rate Nts. 1995 $636.67
Commonwealth Bank of Australia 7% Gtd. Bear. Nts. Nov. 1992 3.5pc.
Doeflex 1.32p
EFM Dragon Tst. 0.05p
Emess 0.85p
Erith 1.3p
Estates & Agency Hldgs. 4p
Glaxo 19.5p
Japan Dev. Bank 9¼% Gtd. Nts. 1997 4.625pc.
Korea Europe Fd. 3cts.
Do. (IDR to Br.) Cpn. 3 3cts.
Leeds Permanent Bldg. Soc. Fltg. Rate Nts. 1997 £275.05
Nationwide Anglia Bldg. Soc. 13½% Sub. Nts. 2000 6.75pc.
Nippon Yusen Kubushiki Kaisha 7½% Nts. 1995 3.75pc.
PFC Intl. Portfolio Fd. Ptg. Red. Prf. (Sterling Inc.) 5.7p
Do. Ptg. Red. Prf. (Balanced Growth) 3.4cts.
Do. Ptg. Red. Prf. (Strategic Reserve) 8cts.
Secure Tst. 3.5p
Security Pacific Corp. Fltg. Rate Sub. Cap. Nts. 1997 $144.29
Treasury 12½% '03/05 6.25pc.

FRIDAY NOVEMBER 22
Adwest 6.75p
Bostrom 2.5p
Brent Chemicals Intl. 1.8p
CALA 2.25p
Central Independent TV 7.5p
Cityvision 0.5p
Conversion 10¼% 1999 5.125pc.
Cookson 3p
European Inv. Bank 10⅜% Ln. 2004 (Br.) 5.1875pc.
Do. 10⅜% Ln. 2004 (Reg.) 5.1875pc.
Evered Bardon 1.935p
Forte 2.75p
Freeman 3p
Galliford 3.35p
Golden Vale 0.42p
Headway 0.7p
Kawasaki Steel Corp. 7¼% Bds. 1999 3.625pc.
Do. 7¼% Bds. 2000 3.625pc.
Lloyd Thompson 6.3p
MMI 0.25p
Melville 1.8p
New Zealand Fltg. Rate Nts. 1997 £137.84
Royal Bank of Canada 29cts.
Rugby 2.85p
S & U Stores 2.2p
Sea Containers 17.5cts.
Sime Darby Berhad 12Sen.
Stag Furniture Hldgs. 2.5p
Standard Chartered Sub. Fltg. Rate Nts. 1998 £138.32
TSB Offshore Inv Fd Ptg. Red. Prf (Gilt & Fxd. Int. Class) 2.09p
Do Ptg. Red. Prf. (Intl Bd. Class) 3.1p
Do Ptg. Red. Prf. (UK Equity Class) 1p
Do. Ptg. Red. Prf. (European Class) 0.5p
Do. Ptg. Red. Prf. (Sterling Dep. Class) 26.5p
Do. Ptg Red. Prf. (Blue Chip & Gilt Edged Class) 0.75p
Thorpe (F. W.) 1.45p
Throgmorton Dual Tst. 3.5p
Treasury 14% 98/01 7pc.
Do 2½% IL Cnv. 1999 £2.0067
Woolwich Bldg. Soc. Fltg. Rate Nts. 1995 £277.26

SATURDAY NOVEMBER 23
Sunderland (Borough of) 11¾% Red. 2008 5.875pc.
Treasury 13¾% Ln. 1993 6.875pc.
Trinidad & Tobago (Rep. of) 12¼% Ln. 2009 (Br.) 6.125pc.
Do 12¼% Ln. 2009 (Reg.) 6.125pc.

PARLIAMENTARY DIARY

TODAY

Commons: Competition and Service (Utilities) Bill, 2nd reading.

Lords: Local Government Bill, 2nd reading. Question to government on scheme for general national vocational qualifications.

Select committees: Treasury and civil service – Autumn Statement. Witnesses: Treasury officials (Room 8, 4.15 pm).

Public accounts – Major defence projects. Witness: Dr M. McIntosh, chief of defence procurement. (Room 16, 4.30 pm).

TOMORROW

Commons: Education (Schools) Bill, 2nd reading.

Lords: Social Security Administration Bill; Social Security Contributions and Benefits Bill; and Social Security (Consequential Provisions) Bill – 2nd readings. Charities Bill, 2nd reading.

Select committees: Social Security – operation of pension funds. Witnesses: Philip Chappell and Lord Vinson (Room 21, 10 am).

Foreign affairs – European Council at Maastricht. Witness: Douglas Hurd, MP, foreign secretary. (Room 8, 10.30 am).

Sittings of the House. Witness: Dr John Cunningham MP, shadow leader of the House (Room 15, 10.45 am).

Committee on opposed private bill: London Docklands Railway (Lewisham etc) (Room 6, 10 am).

WEDNESDAY

Commons: Debate on the European Community, first day.

Lords: Debate on the police service. Debate on education, specialising on children with special needs. Prisons (Freedom of Religion) Bill, 2nd reading. Question to government on help for Croatia.

Select committees: Environment – Coastal zone protection. Witnesses: Royal Town Planning Institute (Room 21, 10.30 am).

Welsh affairs – transfer of British Coal Corporation records from Tredomen. Witnesses: Institution of Civil Engineers; Royal Institute of Chartered Surveyors; National Library of Wales; British Coal Corporation (Room 15, 10.30 am).

Treasury and civil service – Autumn Statement. Witnesses: Treasury officials. (Room 19, 10.45 am).

Energy – Renewable energy. Witnesses: Severn Tidal Power group; Mersey Barrage Company Ltd; Prof S. Salter; Dr T. Whittaker; and Dr T. Shaw. (Room 8, 11 am).

Education and science – Scrutiny session. Witness: Chairman of the National Curriculum Council (Room 18, 4.15 pm).

Employment – Retraining for new technology. Witnesses: British Aerospace, British Steel (Industry) Ltd (Room 15, 4.15 pm).

Health – Maternity services. Witnesses: British Association of Perinatal Medicine, British Paediatric Association, Neo-Natal Nurses Association, and the Thames Regional Perinatal Group (Room 8, 4.15 pm).

Public accounts – National Insurance Fund. Witness: Sir Michael Partridge, social security department (Room 16, 4.15 pm).

Transport – The Channel tunnel. Witnesses: Road Haulage Association; Railfreight Users Group (Room 17, 4.15 pm).

Committee on Opposed private bill: London Docklands Railway (Lewisham etc) (Room 6, 10 am).

THURSDAY

Commons: Debate on European Community – 2nd day.

Lords: Debates on Social Security legislation. Further and Higher Education Bill, 2nd reading. Question to government on human rights violations in Nagorno Karabach and Azerbaijan.

Select Committees: Sittings of the House. Witness: Edward Heath, MP (Room 8, 10.45 am).

FRIDAY

Commons: Debate on nuclear defence.

Mr. Nicholas Fewtrell

ABN AMRO Bank is greatly saddened by the passing of Mr. Nicholas Fewtrell, their U.K. Treasurer, who died tragically in a fire on 12th November, 1991. His loss is keenly felt by us and we extend our every sympathy to his wife Amanda and their children Louisa and James on their bereavement

TRADE FAIRS, EXHIBITIONS & CONFERENCES

NOVEMBER 21
DTI /INTERNATIONAL FACTORS WORKSHOP ON EXPORTING TO FRANCE
Breakfast workshop on suitable terms for exporting to France; getting paid for sales; financing the credit period; legal aspects; distribution and technical standards. Venue: Cedar Court Hotel, Wakefield. Cost £25.00
Contact: John Leslie 0532 338256.
LEEDS

NOVEMBER 22
PREPARING FOR THE UPTURN
Lloyds Bank/ECGD/International Factors
Make the best of opportunities to come by improving liquidity, securing prompt payments from buyers overseas and at home, managing increasing sales. Wolverhampton Chamber of Commerce 11.30-14.00. Free of charge. Contact: Carol Slater on 0902 22228.
WOLVERHAMPTON

NOVEMBER 25
MARKETING MANAGED FUTURES FUNDS IN EUROPE
One day seminar with speakers from Prudential Holborn, Gerrard Vivian Gray, SIB, E.D. and F Man, Simmons and Simmons, Challenger Financial. Topics include 'Prospects for the UK domestic and offshore market'.
Futures and Options World Tel: 081 330 4311 Fax: 081 337 8943
LONDON

NOVEMBER 25
National Versus European Regulation: Political, Economic and Corporate Strategic Dimensions
convened by The Royal Institute of International Affairs and the Strategic Planning Society. To be held at Chatham House, London. Enquiries The Strategic Planning Society. Tel: 071 636 7737; Fax: 071 323 1692
LONDON

NOVEMBER 25
MARKETING MANAGED FUTURES FUNDS IN EUROPE
One day seminar with speakers from Prudential Holborn, Gerrard Vivian Gray, SIB, E.D. and F Man, Simmons and Simmons Challenger Financial. Topics include 'Prospects for the UK domestic and offshore market'.
Futures and Options World Tel: 081 330 4311 Fax: 081 337 8943
LONDON

NOVEMBER 25-26
IT OUTSOURCING AND FACILITIES MANAGEMENT
A review of IT Outsourcing and Facilities management in the 1990's by some of the leading experts in the *marketplace. Conference Organisers:* Contact: Amanda Stecker, IIR Scientific & Technical Division.
071 412 0141.
LONDON

NOVEMBER 26
Anglo-Soviet Trade & Investment Conference
Middlesex Business School Conference in successful trading - both directly and by joint venture - with the USSR
Christine Brandon 071 936 3434
Queen Elizabeth II Conference Centre Westminster
LONDON

NOVEMBER 28
ACTIVITY BASED COSTING
A one-day course at LSE intended for people who wish to consider overhead control. Organiser: Dr Miles Gietzmann. Contact Nicola Meakin, Short Courses Office, LSE.
Tel: 071-955 7227.
LONDON

NOVEMBER 28
ACQUIRING IN FRANCE
A comprehensive guide to the M&A differences when compared to the UK. Sponsored by: Coopers & Lybrand Europe, Slaughter and May. Subjects covered include the strategic, valuation, legal, financing and accounting issues.
Contact: FIBEX. Tel: 071-489 9944
Fax: 071-236 6140
LONDON

NOVEMBER 28
PREPARING FOR THE UPTURN
Lloyds Bank/ECGD/International factors
Make the best of opportunities to come by improving liquidity, securing prompt payments from buyers overseas and at home, managing and increasing sales. Bristol Chamber of Commerce 11.30-14.00. Free of charge. Contact: Katie Rosser on 0272 737373.
BRISTOL

NOVEMBER 29
Buying, Selling and Making Profits from Contaminated Land
Buying Contaminated Land when you did not know it was contaminated is a disaster. Buying contaminated land after thorough investigation is a business. Contact: Nova Herbert, Henry Stewart Conference Studies. Tel: 071 935 2382 Fax: 071 486 7083.
LONDON

DECEMBER 2-3
6th International Energy Conference
Energy Policy: Marketled or Government driven
Convened by The Royal Institute of International Affairs. The British Institue of Energy Economics and The International Association for Energy Economics. To be held at Chatham House, London. Enquiries RIIA Conferences. Tel: 071 957 5700 Fax: 071 957 5710.
LONDON

DECEMBER 2-10
Real-Time Technology Workshop
The programme provides an in-depth coverage of the current technological developments in communications, processing, real-time software, and peripheral technology, and combines with a display of the latest available products.
Contact: Sue Cooke
Diamond Point Tel: 0634 722390
Fax: 0634 722398
UK

DECEMBER 3
DECENTRALISING I.T. SERVICES
The Conference assesses different approaches to decentralising the provision of IT services and examines the problems and issues involved, including aligning IT organisation with business structure, and the need for new management processes and working practices. Contact Business Intelligence.
Tel No. 081 944 1591
Fax No. 081 944 0332.
LONDON

DECEMBER 3
INVESTMENT IN HOUSING ASSOCIATIONS
For Bankers and Institutional Fund managers - seminar covering market, risks, H.A. requirements, public grant interface, achieving an assured rate of return. Chartered Accountants' Hall, Moorgate Place, EC2. 4pm-7pm.
Contact: Peter Tegg, Social Housing Finance Consortium Limited. Tel: 071-588 3611. Fax: 071 638 2159.
LONDON

DECEMBER 4&5
World Telecommunications
The FT's annual conference reviews three interwoven trends changing the shape of the world telecommunications industry- privatisation, deregulation and globalisation. Enquiries: Financial Times Conference Organisation.
Tel: 071-925 2323 Fax: 071-925 2125
LONDON

DECEMBER 4 & 5
RELIABLE SAMPLING
Reliable chemical sampling is the vital first step in the investigation of pollution incidents. This important conference includes a review of environmental legislation, case law and codes of practice with discussion on company compliance with the new Environmental Protection Act. Contact: Peter Russell or Diane McGraw. Tel: 081 467 2636 Fax: 081 467 7258
LONDON

DECEMBER 5
The EC Social Charter: Practical Implications for employers
This highly practical conference will examine the far-reaching consequences for UK employers, of the EC Social Charter and the numerous employment related Directives within it.
Contact: Westminster Management Consultants Ltd, Tel: (0483) 740 730
Fax: (0483) 740 727
LONDON

DECEMBER 5&6
CAPITAL PEOPLE
The second European Conference on Human Resource strategies in Financial Services. Important forum for senior practitioners to discuss the problems & challenges of policies & initiatives in the sector.
Contact Gill Stoddart 081 332 0044
LONDON

DECEMBER 6
Television and The Public Interest : New System, New Problems, New Ideas
A London School of Economics Conference addressing the prospects for quality, range and maintenance of standards in Independent Televison and the scope for Public Service provision in a multi-channel system.
Contact: Jane Vass (071) 630 7111
LONDON

DECEMBER 9
ACQUIRING IN SPAIN
A comprehensive guide to the M&A differences when compared to the UK. Sponsored by: Coopers & Lybrand Europe. Subjects covered include the strategic, valuation,legal, financing and accounting issues. Contact FIBEX
Tel: 071-489 9944 Fax: 071-236 6140
LONDON

DECEMBER 10
VDU Directive
Management Briefing on the implications of European Directive 90/270. Vital information for IT suppliers and those responsible for designing, selecting or installing IT systems. Speakers: Brian Pearce, HUSAT; Tom Stewart, BTC; Colin Mackay, HSE.
HUSAT Training. Tel: 0509 611088 Fax: 0509 234651
LONDON

DECEMBER 12
Video Conferencing Systems - Their Benefits, Technology and Implementation
Detailed analysis: taking the initial steps, management, and applications of the technology using case studies and live demonstrations. Public networks and private high/low networks addressed.
Contact Alison Walters, IBC Technical Services. tel: 071 637 4383
LONDON

DECEMBER 12-13
ENERGY '93
A practical event bringing together EC-based buyers and suppliers involved in the energy industries to assess economic and financial impact of forthcoming EC 'Utilities' Directives. Organised by Ernst & Young and NEDO, Queen Elizabeth II Conference Centre, Westminster.
Contact: Tracy Lepard on 071-931 4675
Fax: 071-620 0940
LONDON

DECEMBER 12-13
NEGOTIATING WITH THE GERMANS
This seminar is specially designed for the busy manager looking to take full advantage of the business opportunities now opening up in the new Germany. Speaker: Vincent Guy. Contact: Louise Knight, Frost & Sullivan Ltd. Tel: 071-730 3438. Fax: 071-730 3343. Quote Ref 1097ft.
LONDON

DECEMBER 16
MANAGEMENT DEVELOPMENT AND CORPORATE PERFORMANCE
Update on key research, sponsored by Economic and Social Research Council. Speakers include Professors Burgoyne, Mangham, Sisson, Storey, and senior industrialists. No fee. Barbican Centre.
Contact: Panzie Laidley, Tel: 071 589 5111, ext. 7027, Fax: 071 823 7685
LONDON

JANUARY 9-10
INTERNATIONAL BOUNDARIES: POLITICAL, LEGAL AND STRATEGIC IMPLICATIONS
Convened by The Royal Institute of International Affairs and Frere Cholmeley. To be held at Chatham House, London. Enquiries RIIA Conferences. Tel: 071 957 5700; Fax: 071 957 5710
LONDON

FEBRUARY 4
MAJOR SEMINAR ON NEW EC DIRECTIVE: Health & Safety of Computer Users. Training Centre, Lloyd's of London
How will the legislation affect you? Penalties of non-compliance: £20,000 if ignored; £120,000+ for injuries. Contact Christine Nash, CEL. Tel: 081-208 2923
LONDON

FEBRUARY 17&18
Cable Television & Satellite Broadcasting
A panel of international speakers will review the opportunities opening up for new television services across Europe, the Middle East and the Soviet Union. Enquiries: Financial Times Conference Organisation.
Tel: 071-925 2323 Fax: 071-925 2125
LONDON

OVERSEAS

NOVEMBER/DECEMBER
FOREIGN PRESENCE WITHOUT FOREIGN TAX
Speaker BARRY SPITZ, Consultant, Professor of International Tax Planning
STRUCTURING MULTINATIONALS
(Frankfurt - Oct 25; Stockholm - November 27; London - December 2)
TAX HAVENS (Amsterdam - Oct 24; Geneva - Nov 25; Paris - Dec 4/5)
Organisers ILTI GENEVA
tel (41-22) 641385 fax (41-22) 642864

DECEMBER 2-3
Environment Protection Conference Strategic and Competitive Implications for the Chemical Industry
Senior executives from Europe and the USA analyse the challenges and opportunities in developing constructive solutions to current environmental problems. Organisers: Chemical Insight European Chemical News, Booz Allen & Hamilton & IIR. Contact: Amanda Stecker IIR Scientific & Technical Division, on 071-412 0141
BRUSSELS

FEBRUARY 16-19
Chemical Week Annual Asia-Pacific Conference
Bryan Sanderson, CEO BP Chemicals; Michael Parker, President Dow Pacific; Sumo Takeishi, Mitsubishi Corporation are among senior figures who will discuss market, environment, legal and chemical business climate in the region with focus on China, Japan, Vietnam, ASEAN and India.
Tel: 071 436 7676 / 212 621 4933. Fax: 071 436 3749 / 212 621 4949
HONG KONG

20-21 FEBRUARY 1992
INTERNATIONAL LITIGATION
Major European Conference considering International Litigation issues arising under EC law
HIGHLIGHTS
Jurisdiction, Protective Remedies, Gathering Evidence, Trial and Appeal procedures, Enforcement of Judgements, Costs and Practical Case Studies.
Tel: 071 437 4383 Charlotte Thornton, IBC Legal Studies & Services Ltd.
NICE

FEBRUARY 23 & 24
Air Transport in the Asia-Pacific Region
Long-term prospects for air transport in the region, the changing International framework and the problems of congestion will be addressed.
Enquiries: Financial Times
Tel: 071-925 2323
Fax: 071-925 2125
SINGAPORE

JUNE 1-5
25th ISATA: International Conference on Paint Technologies in the Automotive Industries
Presentations on paint application to the modern vehicle: Paint compositions, emission, criteria, paint film monitoring and the development of coating substitutes are evaluated.
Contact ISATA on Tel: 081-681 3069 or Fax 081-686 1490
FLORENCE, ITALY

EXHIBITIONS

NOVEMBER 25-26
SOFTWORLD IN SALES AND MARKETING
Exhibition and Seminars from the Top 40 suppliers of Software for Sales and Marketing Departments ranging from Prospect Management to Market Analysis. Delegates can attend 40 minute presentations on each product free of charge. Contact Interactive Exhibitions 081 541 4865
LONDON

A new look for old friends

Gerald Cadogan visits the British Museum's permanent exhibitions

The toughest test for a museum is to make new permanent exhibitions. Curators usually have the chance of that only once in their careers. At the British Museum four new permanent exhibitions (Early Mesopotamia, Egypt and Africa, Italy before the Roman Empire, and Rome: City and Empire) have opened this summer. They are intended to last into the next century.

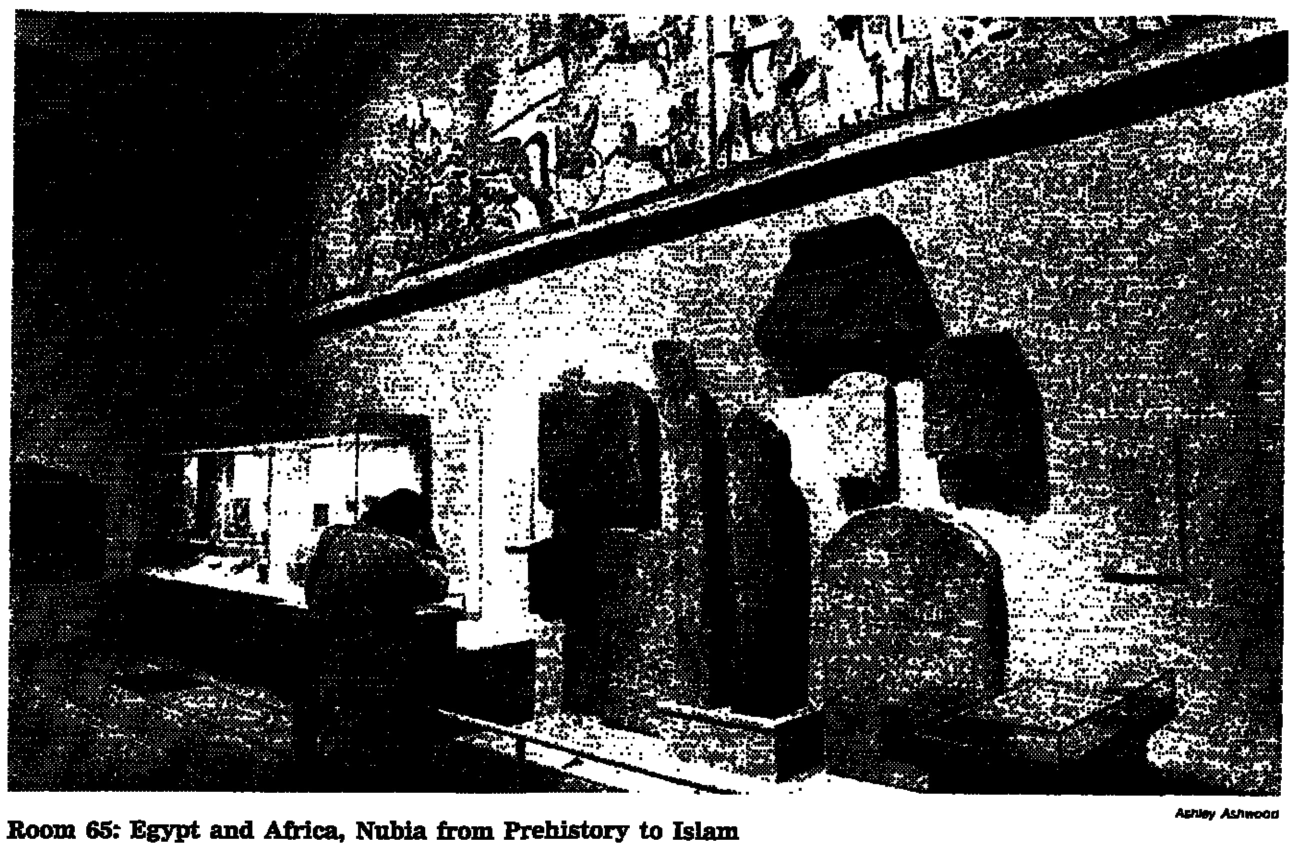
This is not just a simple matter of how good the collections are, retrieving forgotten treasures from the basement and re-displaying them. Curators examine where scholarship stands now to present an authoritative view that attracts and informs the public, and yet is judicious enough to last till the gallery is next redone in 20 years' time. They must be aware of new theories, but include only those that are permanent advances. They know their hardest judges will be fellow experts, who will inspect how the objects are conserved and shown, check the information panels and throw a beady eye at the dates assigned to the objects, since chronology is always a matter of controversy.

How do the BM's 1991 galleries succeed? Pretty well. I started in *Early Mesopotamia* (Room 56), a handsome show where the designers have found extra space by setting the displays back into the wall. The collection is stunning, in good condition, and gives a vivid sense of palace and temple life on the Euphrates and Tigris. Mesopotamian art is so much livelier than that of ancient Egypt: no static pharoahs here, but change and movement – writhing snakes and half-human monsters holding goats by their feet.

The highlight is the treasures of Ur in south Iraq, which the BM shares with Baghdad and Philadelphia. They suggest a life in 2600 BC like that of Moghul princes. The men wore gold daggers, and the women gold, carnelian and lapis lazuli jewellery. They feasted from gold and silver fluted cups and bowls, charmed by music from a lyre inlaid with mother-of-pearl, pink limestone and deep blue lapis lazuli. The finest piece is the "Ram in the Thicket", as the excavator Sir Leonard Woolley called it, a statuette in gold leaf, lapis lazuli and white shell of a standing goat resting its front hooves in a tree.

Equally fascinating are the relics of Babylonian magic and astrology. Inventing writing before 3000 BC and the system of time keeping we use now, the old Iraqi wizards wrote down how to read the eclipses of the moon, or declare omens from dropping oil into water – like reading tea leaves, or bubbles in Greek coffee. There is even an inscribed clay model of a sheep's liver to demonstrate how to read fortunes from animals' intestines.

Generous Americans Raymond and Beverly Sackler have given the money for both the Early Mesopotamia Room and the Egypt and Africa Room and should be proud of the results. (Other Sacklers have sponsored the new galleries in the Royal Academy.) *Egypt and Africa* (Room 65) is a fine teaching exhibition of ancient Nubia, now upper Egypt and Sudan, which was the contact zone between the great civilisation on the Nile and continental Africa. It incorporates the research in the valley before the Aswan Dam flooded it and shows how much pharaonic Egypt depended on Nubia for gold, copper, semi-precious stones, ostrich eggs and slaves, imposing its rule with forts and temples. The best known temples are the pair that Rameses II (1279-13 BC) built at Abu Simbel, one for himself and the Sun God Re, and the smaller temple for his wife and the goddess Hathor. The gallery is full of new information and essential briefing for those going to the Sudan.



Ashley Ashwood

Room 65: Egypt and Africa, Nubia from Prehistory to Islam

The centrepiece of *Italy Before the Roman Empire* (Room 71) is the Etruscans, who seem a shadowy people since none of their literature survives. The Romans, who subdued them, dismissed them as an effete, lazy lot, lacking the Roman virtues of simplicity and severity. A look at their prosperous High Victorian lifestyle, rich on supplying metals to the rest of the Mediterranean, makes it easy to see how this view arose. They bought the finest Athenian vases and Phoenician and Egyptian objets d'art and buried them in tombs which they had adorned with pictures of sport, banqueting and myths. Etruscan women loved rococo jewellery, and titivated their elaborate hairdos in silver and copper hand held mirrors, polished on one side and exquisitely chased on the other. The Etruscans make an enjoyable show, especially useful for travellers to central Italy.

Rome: City and Empire (Room 70), funded by the Wolfson Foundation, is a major display of the prosperity of history's largest common market. The Empire, stretching from Scotland to Syria and Morocco to Romania, managed to include in one huge political, economic and military system the now Christian countries of Europe with those now Moslem round the Mediterranean. The BM gives a splendid sample of this achievement, and reveals it did not take the Romans long to follow the Etruscan approach to life, notably on the Bay of Naples which Cicero, in the late days of the Republic, had castigated as a "mixing bowl of luxury".

You will see many different strands of life in the Empire. The Portland Vase, made in the time of the first emperor Augustus (27 BC-AD 14), is a restrained picture of timeless Roman values. In contrast is the suit of crocodile skin armour from Egypt, donned for processions in honour of the crocodile cults – in all senses miles away from the eternal city. I enjoyed the wall paintings from Nero's Golden House and was surprised by how many silver salvers Roman Gaul had (though not so many, perhaps, as in the Roman Britain gallery, where a quick visit will round off Imperial Rome).

All four galleries were packed with free-entrance visitors, many from Italy, enjoying themselves, though one looked at the paintings from Pompeii and just said "*rubato*" (robbed).

London Symphony

BARBICAN HALL

Any programme that starts with Strauss's *Don Juan* and ends with Skryabin's *Poem of Ecstasy* has something more than a twinkle in its eye. The LSO's Saturday concert had Jessye Norman with a broad beam, ambling majestically on like a visitor from some larger, more generous world to deliver two of the most erotic song-sets in the repertoire. Between them came Honegger's loving portrait of a locomotive, *Pacific 231*, which rattled along to excellent effect and left the orchestra visibly chuffed.

Sponsored by Sequent Computer Systems, the concert made another nod toward this year's Swiss anniversary (Honegger was Swiss) with the "Wesendonk" songs Wagner wrote to his lover Mathilde's verses (their affair began in Zurich). Miss Norman brought heroic conviction to them great sculpted phrases, serene passion: the tremulous, intimate aspect of the slower songs is not something that a voice of this calibre can wear easily. More real legato would have been welcome: the soprano's German has a satisfying crunch, but her consonants bite hard into her vocal line, instead of riding upon it.

In Ravel's *Shéhérazade* cycle her French was odd and indistinct, but the curves of the music floated smooth and intact. The geography of "Asie" was imposing: in "La flûte enchantée" she scaled down beautifully. She made a little drama out of "L'indifférent" (stretching it out, like "Asie", beyond what Ravel might have approved), watching the retreat of the androgynous youth with a benevolent maternal eye.

The conductor was the Romanian Ion Marin, whose rapport with Miss Norman seemed to be seamless. Since his career is almost entirely in opera, one wondered what to expect in the Strauss and Skryabin visions. The LSO drove exuberantly through both: not even the most innocent listener could have doubted their subject matter. In the *Poem of Ecstasy* the trumpets soared brilliantly; at the final peroration the horns didn't raise their instruments and point them at the audience, as Skryabin directed. It would have been too much.

The pacing of each piece had an assured, straight-through thrust, with which presumably Marin had something to do, though the orchestra seemed less to be following him than accompanying his *pas seul*. His podium manner comes from another time and place: he acted out the music with balletic gestures, apparently in a private rapture. That seemed suitable enough for this programme, and the orchestral results were resoundingly romantic.

David Murray

Scottish Ballet 2

BROADWAY THEATRE, BARKING

Taking good, serious ballet to communities that, as it were, other companies cannot reach, is the brief for Scottish Ballet 2. The Highlands and Islands, towns where there is no suitable theatre – these are the ports of call for this ensemble of six (and occasionally more) dancers. The enterprise is excellent, and – as we saw when the troupe paid a single visit to Barking on Thursday night – standards of repertory are high.

A good piano trio provides the music; the dancers are able, and in a work by Sir Kenneth MacMillan showed themselves fine interpretative artists; staging is simple. Here is a way to build and hold an audience without patronising them, and without flinging vast sums of money about.

The need for more ballet in the regions – in remoter districts especially – is highlighted by a survey lately undertaken by *The Dancing Times*, whose readership covers the entire spectrum of our dance audience. The results, published in the November issue, should be studied by companies, sponsors, funding bodies and television planners, for they highlight a need to get more classical ballet to a wider and more eager audience than perhaps they realise.

Cheers, then, for Scottish Ballet 2's enterprise, and for a well-planned programme. Ashton's *Monotones* trios make a good beginning to the evening; and his *Isadora* waltzes lead into the obligatory tutu and tights classical item – a version of the *Laurencia* sextet that Galina Samsova has edited – to send everyone home dazzled by steps and smiles and pirouettes.

As the meat of the programme, Sir Kenneth MacMillan has revived his *Sea of Troubles*. Originally staged four years ago for Dance Advance (a small experimental group), this re-casts the events of *Hamlet* as a wild dream in which events and characters are elided, duplicated and terrifyingly re-shaped in the distraught prince's imagination. Its logic is the logic of nightmare where nothing, save guilt, is what it seems.

I think it one of MacMillan's finest works, not least for the relaxed mastery with which he pinpoints events, anguish, personality. The bare-foot language shows a complete control of expressionistic movement and style – each action revelatory, torn from their psyche. Deborah MacMillan has set it with ideal austerity: white shirts, grey trousers for the three men; long grey dresses for the three women; crowns, veiling, a mad coat and stole as properties, and a simple white curtain as the only decor.

The effect is as if we are watching a group of neurotics playing *Hamlet* – each assuming a role at will – and each finding some wound in the character that corresponds to their own psychic distress. There are haunting visual resonances – from the drowned Ophelia floating and undulating in the arms of two men, to Hamlet's father as couch for Claudius and Gertrude, and the murdered Polonius falling from the arras with a red cloth over his face. Delusions, deep distress, are everywhere apparent, and given the most exact and thrilling imagery.

The score comprises Webern and Martinu chamber works; the dancers – Julia Barbone, Tristan Borrer, Micaela Greganti, Roddie Patrizio, Ruth Robinson, Richard Whistler – are grandly communicative. I would also commend the two other members of the troupe – Fabrice Maufrais and Claire Mahon – and Scottish Ballet's good sense in making the idea of small touring ballet so valuable and so enjoyable. For Kenn Burke, SB2's director, great admiration.

Clement Crisp

LETTER FROM NEW YORK

Come to the cabaret!

"Come to the cabaret, old son!" is the current message from New York. If the new Broadway season has been somewhat sluggish in delivering the goodies, the nightspots are booming. People here like to be entertained while they eat and drink. The fare on offer may be hamburgers, french fries and coke at somewhere like the Bottom Line on W.14th by Mercer Street, or champagne, oysters Rockefeller, a grilled steak the size of a mattress, and a baked Alaska flambé to finish, at the pricey Rainbow Room. Either way you will chomp to the sound of music.

You can still dance in the legendary Rainbow Ballroom, setting for the obligatory New Year's Eve sequence in a hundred pre-war movies; for the show which occurs twice nightly, in this mid-town skyscraper suite, you have to make a reservation at the Rainbow & Stars room (tel: 212-632-5000) where the tables are packed close together around a small stage on which perches a piano, and from where there is a magical view of the Manhattan skyline.

Music will be played non-stop throughout your meal by the house pianist until the lights are dimmed and the cabaret, lasting a good hour, begins. At present it is *The Rodgers & Hart Revue* with a trio of musicians – piano, drums and bass – and a quartet of singers, Jason Graae, Judy Kuhn, Elaine Strich and Margaret Whiting. The latter enter severally to the strains of "I've a cozy flat in/ What is known as old Manhattan/ We'll settle down/ Right here in town!" It is spot-on – though some of the lines do need up-dating: "The subway charms us so/ When balmy breezes blow/ To and fro..." to the sound of people being mugged, one would wish to add today.

A more serious problem is that of the ghosts. I cannot hear that song without also hearing Ella Fitzgerald singing it on my often-played *The Rodgers & Hart Songbook* CDs. Likewise the pathos of "Ten Cents A Dance" is for me inextricably bound up with the wispy waif-like tones of Anita O'Day, and none of Strich's vigorous waltzing, as she berates the "butchers and barbers and rats from the harbors", can extinguish O'Day from my mind.

Still, in the great comic number "To Keep My Love Alive" about a lady who bumped off a whole stableful of husbands, Strich's craggy belligerence really does come into its own. The couplet, projected with maximum venom: "At night he was a horse's neck to me/ So I performed an appendectomy..." brought the house down. And Strich gives what will become, surely, the definitive version of the less familiar "Zip" from *Pal Joey*, describing an interview with Gypsy Rose Lee whose thoughts are all on Schopenhauer. At each punchline Strich mimes the discarding of one more layer of the infra-structure.

Luckily the Rodgers and Hart heritage of nearly 700 songs is so rich that this company is able to find some material that has not been unduly worked over before in cabaret. Jason Graae and Judy Kuhn, both a generation or two younger than the songs they sing, make a nice double out of "My heart stood still" and "Lover". Kuhn, who has appeared on Broadway in *Les Misérables* as Cosette, possesses a haunting radiance and a fine purity of tone. The lulling rhythms of Rodgers's pre-war style come as naturally to her as they used to do to the likes of Jeanette Macdonald, or, for that matter, to Margaret Whiting, the veteran here, courageously revealing that she is still capable of getting a rise out of "What is a man?" and other standards.

Judy Kuhn, Elaine Stritch, Jay Leonhart, Margaret Whiting and Jasdon Graae in 'The Rodgers and Hart Revue'

Another boom area of the Manhattan entertainment scene is at the Lincoln Center, where John Guare's play *Six Degrees of Separation* is still playing every night to capacity business at the Vivian Beaumont Theater. It was originally put on in May of last year for a ten-week season, but had to have its run extended indefinitely because it rapidly turned into an unstoppable cult. The work figures frequently in conversation at social gatherings. Everyone claims to know the people who inspired it. It is easy for a visiting Brit. to see why it should have had this universal appeal without him especially liking the play.

Lasting for 90-minutes non-stop, and performed at great speed with members of the cast frequently addressing their lines directly to the audience, it manages to deal summarily with a whole range of topics about which Americans currently harbour deep subliminal feelings of guilt. The light-hearted uncovering of these seems highly therapeutic.

A young black man (Courtney B. Vance), streaming blood, bursts into a quiet dinner-party for three into the luxurious apartment of a New York art merchant, saying that he has been mugged in Central Park. His acceptance becomes complete when he tells them that he is a class-mate of the host and hostesses' two sons at Harvard, whose pet-names and foibles he knows well. Further claims of being himself the son of Sidney Poitier, and actively involved in the film version of *Cats* about to be made, only serve to heighten the interrupted diners' avaricious credulity rather than destroy it. He is a con-man, as the audience realises from the start. Someone has done a Professor Higgins-type job on his pronunciation – and to boot he is gay.

Between every one in the world, we are told, in a little set-piece speech by the wife, lies only six degrees of separation. But the real separation in American life, as in our own, is between the haves, represented by the art-dealer (John Cunningham) and his spouse (Kelly Bishop) and their South African friend (Sam Stoneburner), and the have-nots in the person of the black hero. The attitudes of both groups in this play are shown to be equally fraudulent; in one case within the legitimate social limits, in the other outside them. The piece does contain penetrating insights into issues ranging from the art-market to apartheid, but I felt it would hardly lose much from being done on radio.

The setting by Tony Walton is "deceptively simple", consisting of little more than a couple of armchairs and an oil by Kandinsky painted on both sides of the canvas. This revolves for some considerable time before the performance showing us the two contrasting faces of a single work, preparing us for the double-sided nature of what is to come. It is that sort of play.

Anthony Curtis

INTERNATIONAL

ARTS GUIDE

TODAY'S EVENTS

■ BERLIN

MUSIC

Staatsoper unter den Linden 19.30 Carl Orff double bill. Tomorrow: Entfuhrung. Wed and Fri: Salome. Sat: concert performance of Meyerbeer's L'Africaine. Sun: Swan Lake (East Berlin 2004 762)
Deutsche Oper 19.30 Die lustigen Weiber von Windsor, comic opera by Nicolai. Tomorrow: Madama Butterfly. Wed: Rene Kollo sings the title role in Siegfried. Thurs: Rigoletto. Fri: Cosi fan tutte. Sat: Peter Schaufuss' production of La Sylphide. Sun: Götterdämmerung (West Berlin 3410 249)

THEATRE

East Berlin: the Maxim Gorki Theater is staging Tadeusz Rozewicz's play Die Alte Frau Brutet (The Old Lady Broods), first night on Fri (2082 748), and the Volksbuhne is showing its new production of Chekhov's On the High Road on Thurs (282 3394). The Berliner Ensemble has Mother Courage tonight, The Good Person of Sezchuan on Wed and The Captain of Kopenick on Sun (2827 712). The Deutsches Theater has Lessing's Nathan the Wise on Wed, Kleist's The Broken Jug on Thurs and Ionesco's The Bald Prima Donna on Sun (2871 225), with a new single-evening adaptation of the Henry IV plays at the Kammerspiele on Fri (2871 226).
West Berlin: the Schiller Theater has a new production of Moliere's Le Malade imaginaire on Sat, plus Lessing's Minna von Barnhelm tomorrow and Fri (3195 236). The Schaubuhne has Kleist's Amphitryon tomorrow, and Shakespeare's The Winter's Tale on Thurs, Sat and Sun (890023).

■ CHICAGO

Civic Opera House 19.30 Bruno Bartoletti conducts Liviu Ciulei's Lyric Opera production of The Gambler, sung in English. The cast includes Jacque Trussel, Sheri Greenawald and Felicity Palmer. Repeated on Wed and Sat (332 2244). Thurs, Fri and Sat in Orchestra Hall: Alfred Brendel plays Liszt's Second Piano Concerto with the Chicago Symphony Orchestra conducted by Daniel Barenboim (435 6666)

■ THE HAGUE

Antoni Ros-Marba conducts the Netherlands Chamber Orchestra tonight at Dr Anton Philipszaal in a programme of Stravinsky's Dumbarton Oaks, Beethoven's Second Symphony and Mozart's. Piano Concerto No 21 with Jean Claude Pennetier. Wed: members of the Residentie Orchestra play chamber and vocal music by the Bach family. Sat: Wolfgang Sawallisch conducts the Royal Concertgebouw Orchestra in Beethoven's Fourth and Seventh Symphonies (360 9810). On Sat and Sun, Nederlands Dans Theater presents two new choreographies by Amanda Miller, plus Hans van Manen's 1971 ballet Grosse Fuge (360 4930)

■ LONDON

Barbican 19.45 Yuri Temirkanov conducts the first of two programmes with the Leningrad Philharmonic Orchestra. Wed: Halle Orchestra. Thurs: Rostropovich conducts Prokofiev. Fri: Frans Bruggen conducts the COE (071-638 8891)
Royal Festival Hall 19.30 Alexander Lazarev conducts the BBC Symphony Orchestra in first British performance of Korndorff's Hymn No 3, also Rakhmaninov's Third Symphony and Scriabin's Piano Concerto with Artur Pizarro. Wed: Murray Perahia and friends. Thurs: Young Musicians Symphony Orchestra. Fri: Julia Migenes. Sat: Frank Martin's Requiem (071-928 8800)
Queen Elizabeth Hall 19.45 Iona Brown directs the Academy of St Martin in the Fields, with Justus Frantz piano soloist. Tomorrow: Nikolaus Harnoncourt conducts Concentus Musicus Wien. Wed, Fri, Sun: Opera Factory production of Don Giovanni (071-928 8800)
Covent Garden 19.30 David Atherton conducts John Dew's production of Les Huguenots. Tomorrow and Fri: Simon Boccanegra. Wed and Thurs: new ballet by William Tuckett. Sat: David Bintley's Cyrano (071-240 1066)

■ MUNICH

Staatsoper 19.00 Don Giovanni with James Morris in the title role. Tomorrow and Fri: Penderecki's new opera Ubu Rex. Wed and Sat: Cav and Pag with Piero Cappuccilli. Thurs and Sun: John Cranko's production of Romeo and Juliet (221316)
Herkulessaal der Residenz 20.00 Emerson String Quartet plays quartets by Mozart, Mendelssohn and Ravel. Tomorrow: Beaux Arts Trio. Wed: Bach's Magnificat. Fri: Aldo Ciccolini piano recital. Other concerts this week include Carmina Burana conducted by Uwe Mund tomorrow at Gasteig, followed on Wed by the Orpheus Chamber Orchestra with Bruno Leonardo Gelber and on Thurs by John McLaughlin and the Labeque Sisters. On Wed in the Prinregententheater, Francisco Araiza sings Winterreise (299901)

■ NEW YORK

New York City Ballet
The Winter season opens tomorrow at New York State Theater with a gala benefit programme, followed by two weeks of repertory performances and a Christmas production of The Nutcracker (870 5570)
Metropolitan Opera
This week's programme begins with La traviata tonight at 20.00, with Cheryl Studer as Violetta, Franco Farina as Alfredo and Juan Pons as Germont, also Fri. Tomorrow and Sat evening: L'elisir d'amore. Wed and Sat afternoon: Aida. Thurs: Cosi fan tutte (362 6000)
New York Philharmonic
Tomorrow's concert, conducted by Kurt Masur, is a programme of variations by four composers. On Thurs and Sat, Charles Dutoit conducts a programme including the Tchaikovsky Violin Concerto with Midori as soloist (875 5030). On Wed, the soprano Benita Valente appears with the Guarneri String Quartet at Alice Tully Hall (721 6500)
Carnegie Hall
The Moscow Virtuosi, with director/soloist Vladimir Spivakov, give a concert on Wed, followed by the Oslo Philharmonic under Mariss Jansons on Sat (247 7800)
Blue Note Jazz Club and Restaurant
Tonight's guest artist is Jeff Beal, with shows at 21.00, 23.00 and 01.00. From tomorrow till Sun, the Blue Note continues its Fusion Extravaganza with The Zawinul Syndicate, with shows at 21.00 and 23.00 (131 West 3rd St, 475 8592)

■ PARIS

Palais Garnier 19.30 John Eliot Gardiner conducts the English Baroque Soloists and Monteverdi Choir in Handel's Agrippina. Tomorrow: Opera Ballet begins a two-week run of Jerome Robbins choreographies (4017 3535)
Théâtre des Champs-Elysées 20.30 Marc Minkowski conducts a concert performance of Lully's Acis et Galatee, with a cast including Jennifer Smith and Philippe Huttenlocher. Thurs: Kent Nagano conducts the Orchestre National de France. Sat and Sun: Yuri Temirkanov conducts the Leningrad Philharmonic Orchestra (4720 3637)
Other events this week include staged performances of Prokofiev's The Fiery Angel at the Opera Bastille tomorrow and Fri (4001 1616), daily performances of West Side Story at the Chatelet starting on Wed (4028 2840), and a production of Bruno Maderna's Hyperion at the Opera Comique on Fri, Sat and Sun (4286 8883)
A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898

■ VIENNA

Staatsoper 19.30 Mara Zampieri sings the title role in Tosca, with Peter Dvorsky as Cavaradossi. Tomorrow: Il barbiere di Siviglia. Wed: La fille mal gardee. Thurs: Der fliegende Hollander. Fri: La traviata. Sat: La forza del destino. Sun: Katya Kabanova (51444 2960)
Musikverein 19.30 Peter Keuschnig conducts Ensemble Kontrapunkte in music by Ives, Milhaud, Villa-Lobos and Paul Dessau. Tomorrow: Jessye Norman. Wed: Schubert orchestral and choral rarities. Thurs: Francisco Araiza recital. Fri: Oleg Maisenberg piano recital. Sat: Hermann Prey sings Schubert (505 8190)
Konzerthaus 19.00 Gerd Albrecht introduces and conducts Mendelssohn's incidental music to A Midsummer Night's Dream. Thurs: BBC Singers in a programme of music by Schnittke and Birtwistle. Fri Colin Davis conducts the Dresden Staatskapelle. Sat: Murray Perahia plays Mozart. Sun: Claudio Abbado conducts the closing concert of Wien Modern (7124 6860)
Burgtheater 219.30 Samuel Beckett's Waiting for Godot, directed by Cesare Lievi, also Wed, Thurs, Sat, Sun. Tomorrow and Fri: George Tabori's Babylon Blues (51444 2218)
Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

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(all times CET)

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Eurosport
0800-0830 International Business report

CNN
0730-0800 Moneyline
1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with a review of business stories
2300-2330 World Business Today
0100-0130 Moneyline

Superchannel
2130-2200 (Tues) East Europe Report – weekly financial report from FTTV.
2130-2200 (Wed) FT Business Weekly – the latest round-up of business news with James Bellini and Debbie Middleton.
2130-2200 (Thurs) Talking Heads

Sky News
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

SATURDAY

CNN
0730-0800 Moneyline
0900-0930 World Business This Week - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week
2110-2140 Your Money

SUNDAY

Superchannel
1800-1830 FT Business Weekly

Sky News
1330, 1830, 2030, 0030, 0230 FT Business Weekly

CNN
0710-0740 Moneyweek
1340-1400 Inside business
1540-1610 Your Money
1800-1830 World Business This Week
1940-2000 Inside Business

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Monday November 18 1991

A failure of supervision

THE STORY of BCCI, examined in an FT series last week, raises one question above all: the responsibilities of the banking supervisors, especially those in the UK, the site of the bank's principal operations.

To weigh that responsibility, start with first principles, as captured in the 1985 white paper on which current UK banking law is based: "The primary role of the banking supervisor is to reduce the risk of capital loss to depositors as a result of the banks with which they place their funds being run imprudently. If he believes a bank is being run in a way likely to endanger depositors' interests, his duty is to act quickly and decisively to put matters right. In some circumstances, he must impose conditions on the future conduct of the business or require it to cease taking deposits altogether."

Measured against that yardstick, any examination of BCCI's record must start from the fact of failure: failure to reduce risk to BCCI depositors, failure to ensure prudent behaviour, failure to act quickly and decisively, failure to impose adequate conditions on future conduct, failure – until the very end – to require it to cease taking deposits.

How to explain that failure? Before turning to the role of the banking supervisors, let us start a little lower down the chain of responsibility: with the first set of watchdogs on the depositors' behalf, BCCI's non-executive directors.

Outside directors – of banks above all – play an important role in keeping the management honest. They cannot police the petty-cash tin for fraud; but they can hold the management responsible, scrutinise its explanations, and ensure the effectiveness of the auditors.

BCCI's non-executive directors did not fulfil these duties as shareholders or depositors would have wished. The first group of watchdogs did not bark.

The second group of watchdogs, the auditors, must also bear a share of the blame. Their role, wrote a 19th century commentator, is to "render it impossible for the board of any bank, by collusive arithmetic, secretly to nurse enormous and ever-growing accounts, year after year, long after they have become more than doubtful". That is just how BCCI hid its huge bad loans.

Divided responsibility

For the early part of its life, BCCI's audit responsibility was divided between two firms, both of them among the most respected in their profession. This enabled BCCI to divide and rule, never presenting either auditor with a complete view. In the end, the auditors became unhappy with this state of affairs, and a single firm took over; but divided responsibility was allowed to last far too long.

It might be argued that after Price Waterhouse became BCCI's sole auditor in 1987 the system worked just as it should: forcing BCCI increasingly to come clean, reporting suspicions to the supervisors, discovering the private files that hid the fraud, distilling the truth from them.

But even if the process was the right one, the time taken was too great. Price Waterhouse had its doubts about the Gulf shipping loans – to give only one example – right from the start; the problems that lay behind them should have been exposed earlier.

Perhaps the auditors' strongest defence is that they were passing on their worries and uncertainties to the supervisors. The problems surrounding the 1989 audit, which came to a head in the spring of 1990, were well known to the Bank of England and other members of the "college" of bank supervisors that oversaw BCCI.

In particular, the supervisors had been alerted to Price Waterhouse's view that there had been "false or deceitful" accounting. The supervisors were not disposed to pay attention, in the words of one of them, to a winking red light on the dashboard, when the vessel was steaming for the rocks. Price Waterhouse did not wish to wreck the prospects of a bail-out by Abu Dhabi by refusing to sign the accounts. The second watchdog had barked in private; but in public it confined itself to a stifled cough.

That leads us back to the responsibility of the bank supervisors. As with the audit, this was divided. BCCI's legal domicile was in Luxembourg and the Banking Acts of 1979 and 1987 allow the Bank of England to take the word of a foreign bank supervisor on BCCI's suitability. But they do not require it to do so. Ultimately, responsibility rests with the Bank.

Sweeping powers

Its powers are sweeping. The 1987 Banking Act says that a bank's licence can be revoked if it is not displaying prudence, integrity and professional skill; if its directors, controllers or managers are unfit on the grounds of competence, soundness of judgment or diligence; if any of its managers' business practices appear deceitful or reflect discredit on them; or if depositors' interests "are in any other way threatened".

The earlier 1979 act is less sweeping, but contains a similar catch-all clause about "threatening the interests of its depositors". Even without benefit of hindsight, it is hard to see how BCCI escaped closure much earlier.

One explanation is that the Bank was afraid it might lose an appeal under the procedure set out in the Act. If the Bank's powers were indeed too tightly restricted by the phrasing of the appeals clause, the law must be redrafted. If, however, the law is broad enough – as to a layman it certainly appears to be – we must look elsewhere for the failure to act.

Perhaps it lies in BCCI's structure – legally based in a country without a strong banking supervisor, but actually operating somewhere else? If so, there are some difficult days ahead, since such arrangements will be made easier under the EC's Second Banking Directive. For the future, this may prove a serious issue; it cannot excuse the failure to act over BCCI, however, since under current legislation the Bank of England must act – independently if necessary – to protect the interests of UK depositors.

At its heart, therefore, the BCCI case does not involve unique circumstances, distinctive though that bank's *modus operandi* was. It turns on a bank supervisor's perennial problem: that taking draconian action might trigger precisely the loss to depositors that the regulator is pledged to prevent.

That dilemma imparts a strong bias towards inaction and it raises the question of whether recent strengthening of bank regulation serves any purpose. If supervisors can never act on their suspicions, for fear of triggering a run, then stronger laws lull the public into false complacency.

The Bingham inquiry, which is investigating the BCCI affair, will draw its own conclusions. In the meantime, there are some simple lessons: never again allow a system of divided responsibility for a major bank; try to ensure that a home country which authorises a dubious bank is also responsible for any deposit guarantee payments necessary if it fails. The EC is working on this latter proposal; central bankers have learnt the first lesson.

Perhaps the most important lesson of BCCI is that bank supervisors are too ready to wait and hope. Banking supervision cannot deliver a risk-free world. But it is not too much to ask the authorities to interpret their mandate with a bias for action, rather than inaction. BCCI's unfitness was clear years before the final crisis. It should not have been allowed to continue.

The reform of health-care provision has become a pressing issue before next year's presidential election, writes **Michael Prowse**

Remedy for a US social illness

Mr Harris Wofford's success in overturning a huge Republican lead to win the Pennsylvania Senate race has brought health care to the centre of America's political stage.

Mr Wofford, an almost unknown former college president, made advocacy of a national health insurance plan a central plank in a populist campaign focusing on the economic grievances of working families. Republicans are now running scared.

After three years of inaction President George Bush has signalled that he may unveil comprehensive reform proposals before next year's election. Capitol Hill is already awash with Democrat bills to reform the health-care system, including proposals from Senator George Mitchell, the majority leader, and Senator Bob Kerrey, the Vietnam veteran seeking the Democrat presidential nomination.

Senate Republicans have belatedly entered the fray with plans for extending health coverage to uninsured groups. Mr Robert Dole, their leader, declared that health care would be the single most important issue in next year's presidential race.

Most critics agree that the US medical system provides good care for most Americans. But it is plagued by two seemingly intractable problems. The first is runaway cost inflation. The share of gross national product absorbed by health care has more than doubled to 13 per cent in the past three decades. This compares with 8-9 per cent in other rich countries and only 6 per cent in the UK. Mr Richard Darman, the US budget director, projects health care to absorb 16 per cent of GNP by 2000.

The second problem may appear baffling in the light of the first. The US is the only advanced industrialised country which fails to guarantee reliable access to health care for the whole population. Between 31m and 37m people (15 per cent of the population) lack any health insurance. Millions more are under-insured, meaning that they could be bankrupted by a serious illness. Lack of coverage, moreover, is not purely a consequence of poverty: two-thirds of the uninsured are employed or the dependents of workers.

The notion that universal coverage could be achieved by legal decree plus tax credits seems inherently implausible

Why is the US able neither to control health-care costs nor guarantee coverage for 15 per cent of its people? The answer lies in the *ad hoc* evolution of its medical system.

During the second world war, big companies evaded wage controls by offering health insurance, which counted as a non-taxable fringe benefit. During the immediate post-war decades, corporate schemes rapidly expanded to the point where they became the normal source of insurance for most Americans.

By the early 1960s, analysts recognised that a health insurance system predicated on employment was inherently flawed: it did nothing for either the elderly or the poor. In 1965, President Lyndon Johnson tried to plug these holes by creating two public-sector schemes – Medicare for the retired and Medicaid for the poor.

Spending on both schemes soared but the problems of uninsured Americans were only partly addressed. In the first place, the reforms never addressed the plight of the working uninsured. Workplace health coverage has always been voluntary: many employers refuse to insure employees on grounds of cost. The problem is growing ever more acute for small companies which lack clout in the insurance market and pay disproportionately high premiums. Many experts now fear fewer workers will qualify for corporate schemes.

Medicaid, meanwhile, rapidly became a poor cousin to Medicare. Access to benefits was restricted to those on welfare rolls while reimbursement rates for doctors and hospitals were set well below market rates. As a result, the scheme now reaches only about 40 per cent of those below the official poverty line.

Health insurance by its very nature creates problems of cost control. Having signed up, the insured get care free or at greatly reduced prices, which limits their incentive to economise. In most countries, excess demand for care is kept within bounds by the existence of bulk purchasers of health care – provinces in Canada, the National Health Service in Britain and associations of private and public payers in continental Europe. All of these bodies have sufficient market power to impose effective budget constraints on the medical profession.

In the US, a fragmented system characterised by a myriad of independent insurers has been unable to impose comparable discipline. Since the early 1980s, the federally-financed Medicare system has begun to exploit its market power in an effort to restrain spending. Companies have tried to control exploding health costs through various forms of "managed competition", such as Health Maintenance Organisations (HMOs) and Preferred Provider Organisations (PPOs). In HMOs care is prepaid, in theory giving providers an incentive to economise on costs; in both HMOs and PPOs patients' choice of medical practitioner is restricted to a list vetted by the insurance company.

So far, however, such innovations have had no discernible impact on health-care spending, which most experts believe is driven mainly by rapid diffusion of expensive new technologies. Real per capita health spending grew at an annual rate of 4.4 per cent during the 1980s compared with 3.6 per cent in the 1970s.

Faced with this array of problems, different groups are pressing for very different solutions:

● The Canadian model. Reformers on the left of the political spectrum – including Senator Kerrey – argue that the employer-based system of private insurance is flawed beyond redemption. It leaves everybody anxious because loss of a job means loss of health cover. It impedes job mobility because people with serious illnesses cannot be reinsured if they switch employers. By comparison with more centralised systems, it involves unnecessary administrative costs of perhaps $60-$70bn a year – or about 10 per cent of total spending.

The answer is a national health plan along Canadian lines. In Canada, a national health insurance scheme operated by the provinces achieves universal coverage at a fraction of the cost of America's fragmented system. Care is financed by taxation but provided by heavily regulated private-sector hospitals and doctors. Enthusiasts say a US national health plan could be run by the states and thus cut federal bureaucracy.

● Tax credits and enhanced competition. Conservative groups favour a polar-opposite solution to the Canadian model. They agree employer-based systems are flawed but believe responsibility for health care should be vested in individuals rather than government. All individuals should be legally obliged to buy insurance. Coverage could still be obtained through employers but existing tax subsidies for corporate schemes would be phased out. In their place, the federal government would make insurance affordable for the poorest families by providing a new system of means-tested individual tax credits.

According to this view, if individuals, rather than companies, are put in the driving seat and if the affluent are denied unnecessary tax relief, the health-care market will become more competitive. People will shop for insurance more carefully, putting sustained downward pressure on health-cost inflation.

● "Play or pay" for employers. The middle-of-the-road position favoured by many health economists and adopted by Senator Mitchell, the Democratic majority leader, is that reforms must build on present arrangements. The way to achieve universal health cover is to confront employers with a stark choice: either play – by providing health insurance for workers – or pay a new payroll health tax towards the cost of an expanded public sector scheme. The public scheme – dubbed Americare – would replace Medicaid and provide coverage for all individuals not covered by employer schemes or Medicare.

Supporters of play or pay recognise that it would do nothing in itself to control costs; indeed it would lead to higher spending because Americare would be a bigger and more generous scheme than Medicaid. Enthusiasts argue that costs could be controlled by giving states (or new quasi-public-sector watchdogs) power to set overall ceilings for spending and to regulate the fees and service volumes of doctors and hospitals.

Confronted with these three broad options (and countless minor variations), the Bush administration's reluctance to act is hardly surprising. Whatever its intrinsic merits, a Canadian-style system would require a huge institutional upheaval involving the abolition of hundreds of thousands of jobs in the private insurance industry and a big increase in the role of the public sector. Taxes would rise by about $250bn as public schemes substituted for private insurance.

Enhanced competition is ideologically more acceptable. But no Republican administration is likely to redistribute $50-$60bn of tax subsidies from company schemes to the poor. The notion that universal coverage could be achieved by legal decree plus tax credits for individuals seems inherently implausible: a public scheme for the poorest would remain inevitable.

It is also hard to understand how making individuals responsible for health insurance would do anything to control costs. Individuals are already cost-conscious because they meet a far higher proportion of expenses out of their own pockets than elsewhere. Tax incentives, to encourage an extension of managed competition and corral more consumers into HMO-type arrangements, might help at the margin. But it would hardly provide a substitute for the broader budget constraints imposed in Europe and Canada.

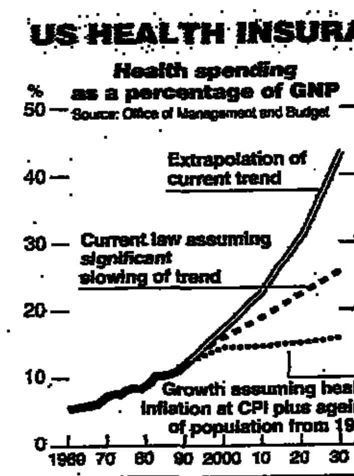
The third – and least disruptive – option is also problematic for the Bush administration. "Play or pay" would impose sizeable additional costs on many businesses and probably cause higher unemployment. The worst effects could be mitigated by setting the corporate health tax well below the average cost of insurance premiums. But from a Republican viewpoint, the risk is then a mass retreat of employers from the health care market, resulting in a Canadian-style system by default.

The Bush administration is caught between a rock and a hard place. The Wofford campaign underlines the danger of continued procrastination. Yet reforms aimed at extending insurance cover seem certain to increase public spending in the short run, perhaps substantially. They also raise sensitive ideological issues. If international experience is any guide, the US will not manage to control costs or guarantee health coverage by simply reshuffling tax subsidies or encouraging competition, managed or otherwise. Conservatives will have to accept that health care is "different" – that efficiency and equity require a bigger role for the public sector.

The US does not look ready for public involvement on the scale taken for granted in Canada and most European countries. This indicates that some variant of the evolutionary "play or pay" proposal, coupled with tougher public sector regulation of medical fees and services, is eventually likely to be accepted as the least painful solution. But it seems doubtful that Mr Bush will bring himself to support even this degree of reform before the next election.

The outlook, therefore, is for much huff and puff but little action. The question is whether Mr Bush can overcome his political vulnerability on health care with a Republican plan which dodges the hard realities.

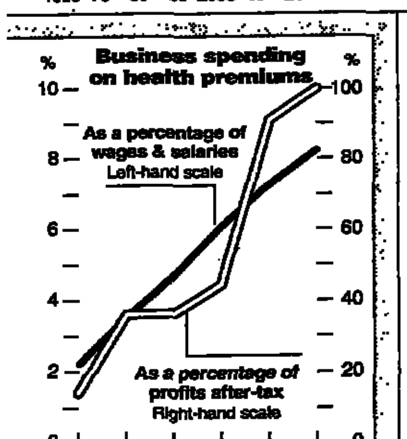
US HEALTH INSURANCE

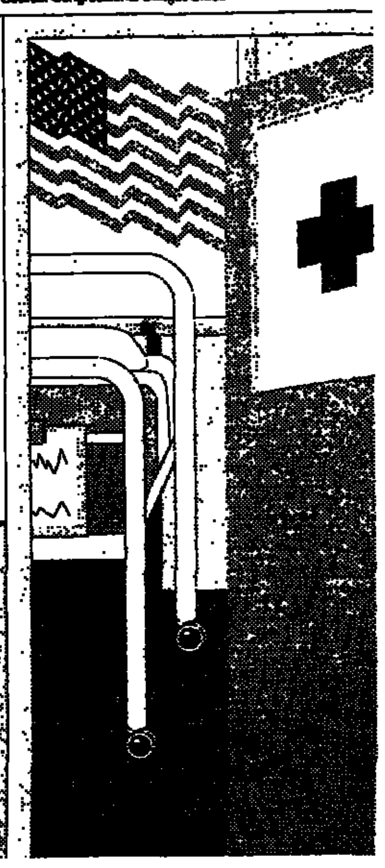


Breakdown of the uninsured
1990 (in millions)

Group	Number	Number as % of uninsured	% of people in group who are uninsured
Workers			
Full-time	13.4	40.4	12.6
Part-time	2.7	8.2	34.2
Subtotal	16.1	48.7	14.2
Nonworking dependents of workers			
Full-time	9.0	27.2	13.3
Part-time	1.6	4.7	28.7
Subtotal	10.6	31.9	14.4
No connection to labour market	6.4	19.4	21.8
Total	33.1	100.0	15.3

Source: Congressional Budget Office





Total health expenditure in selected countries

1987	% of GDP	Per capita $ US	% of US
US	11.2	2,051	100
Sweden	9.0	1,233	60
Canada	8.6	1,483	72
France	8.5	1,105	54
Germany	8.2	1,093	53
Switzerland	7.7	1,225	60
Italy	7.2	841	41
Japan	6.8	915	[illegible]
UK	6.0	758	37

Source: OECD

OBSERVER

Shooting from the lip

■ It is always nice to find someone to blame for a sharp drop in share prices. So Observer would like to put forward the name of the irrepressible New York senator Alfonse D'Amato. Injured investors should address their hate mail to him.

It was D'Amato who successfully pushed legislation through the US Senate last week imposing a cap on credit-card *interest rates, sending* tremors through the fragile banking industry and a nervous stock market. He is a Republican, but his unpredictability and unabashed devotion to constituents' interests – his nickname is "Senator Pothole" – make him a bit of a *loose cannon.*

D'Amato remains unapologetic. Yesterday, he accused the banks again of rigging credit card interest rates and pointed out that seven out of the ten biggest have precisely the same 19.80 per cent rate. "At least Jesse James wore a mask," *said D'Amato.*

Admittedly, he has pressed for lower credit card interest rates for years, because so many of his New York constituents became credit addicts during the booming 1980s. But the timing of his renewed onslaught is revealing: it comes amid continuing allegations of influence peddling which threaten his campaign for re-election next year.

Running a populist campaign against the big banks is one way to turn the tables on prospective opponents in 1992 - even if it scares the hee-bie-jeebies out of the White House and Wall Street.

Timely sequel

■ Meanwhile, investors needing help in updating their domesday *scenarios need not* despair. Help is at hand. Lord Rees-Mogg, ex-editor of The Times, and James Dale Davidson, a US analyst, have followed up their thought-provoking 1987 investment tome – Blood in the Streets – with an equally apocalyptic sequel.

The Great Reckoning, just published in the US, is full of dire predictions. The more notable, according to the dust jacket, are: Gorbachev will be replaced by a right wing dictator; the value of the *average private home will* drop by two thirds; and prices will fall for the first time since the 1930s, wiping out many corporations and individuals.

In their previous book, the authors claim to have predicted the October 1987 stock market crash and the collapse *of communism* in eastern Europe. However, at that time the publishers were putting more emphasis on such humdrum predictions as why the next world depression could be caused by a Japanese earthquake, or why economic reforms in the Soviet Union *may raise the cost of cocoa.*

Retiring party

■ "If at first you don't succeed, try again" was the lesson Robert the Bruce learned from the spider in his cave. The Scottish National Party, however, seems to be operating on the opposite principle: if at first you *do* succeed, give up.

It was the SNP that mooted Edinburgh as headquarters city of the proposed European central bank – an idea straightaway taken up by not only the Scottish Enterprise development body, but others of the Caledonian great and good, including the Scottish Council. They meet today to plan their campaign to have Edinburgh chosen ahead of *front-runners* Frankfurt and Luxembourg.

Admittedly, the Scottish hope seems forlorn without the backing of the UK government which, not favouring the bank's creation in the first place, seems *unlikely* to oblige. *But* to save the campaign from being further handicapped by the taint of party politics, the SNP has selflessly agreed to drop out.

"Brian favours a referendum on the new Michael Jackson video"

Trashing Racal

■ The case of Roger Carr's disappearing rubbish bags is more mysterious than it seems. Carr is managing director of Williams Holdings, which is trying to take over Racal Electronics. Just over a week ago *someone drove off with two* rubbish bags from outside his house.

The picture of two bumbling sleuths, supposedly hired by Racal's department of dirty tricks to dig up the dirt on Williams' ambitious conglomerateurs, is jolly entertaining, especially since they were not Carr's rubbish bags, but his neighbours'.

Racal is being suitably humble. It does not condone such underhand practices and is extremely displeased. Only problem is that it does not know which of its advisers might have hired the sleuths. Hardly the response of a company in charge of its destiny.

Goldman Sachs, the most aggressive of Racal's advisers, denies hiring the investigators. That said, everyone associated with the bid seems agreed that going through the trash cans of the enemy's management is below the belt. But anyone versed in US takeover tactics knows that such behaviour *is standard procedure on the* other side of the Atlantic at least. Why not here?

The other loose end in this tale of corporate humbug concerns the financial investigators retained by Racal. If they are close to reporting anything they found about Williams, *what better way to spike their* guns than to make sure the above story of incompetence gets maximum publicity?

Just a thought.

Last resort

■ What inspired the Bank of England's choice of its Christmas card for this year? It confronts us with a musket-wielding stalwart of the Old Lady's so-called Volunteer Corps.

The 450-strong armed band - with officers from the court of directors, and clerks apparently conscripted as rank and file – was first formed in 1798 as the last defence of the nation's wealth against the French.

The choice perhaps reflects wishful thinking. After all, *the Bank might have been glad* of a private army when under siege by BCCI depositors a few months ago. In fact, it was finally disbanded in 1907.

Then again, the card may be a joke at the Old Lady's own expense after a year that has seen just about every tenet of prudent banking flouted under her nose. The old Volunteer Corps' motto was: *No advance without security.*

Italy is worried about being relegated to the European Community's second division, writes **Robert Graham**

'Good Europeans' face sternest test

As founder members, the Italians have long displayed an almost proprietorial attitude to the European Community. Confident that they were behaving as "good Europeans", they have not been prone to debate the pros and cons of membership or whether their country was complying with the rules.

But, as EC leaders begin to put in place the new economic structure of Europe, this complacency has received a nasty jolt. In the run-up to the Maastricht summit next month, Italians have discovered to their dismay that the rules of the club are being tightened and that membership involves obligations, not merely privileges. The dismay is the greater, since it was the Italian presidency of the EC last year which set in motion the current timetable for closer European economic and political union.

At stake is far more than national pride. Italy has to demonstrate that it can bring its economy into line with its main European partners by 1997, the earliest date set for the final phase of economic and monetary union (Emu). Otherwise, Italy's unresolved economic difficulties, chiefly its public sector deficit, could propel it into Europe's second division.

The cries of alarm have suddenly begun to sound. "Italy risks being relegated to division B" has become a constant theme of recent speeches by Mr Guido Carli, the veteran treasury minister, and by leading industrialists, such as Mr Cesare Romiti, Fiat

COUNTDOWN TO MAASTRICHT

chief executive. Even the prime minister Mr Giulio Andreotti, never one to seek to alarm his citizens, warned in presenting the 1992 budget that "we need Europe, but Europe does not necessarily need us".

These warnings echo the not-so-private counsels coming from Brussels, from Italy's leading partners and international organisations such as the Organisation for Economic Co-operation and Development. On almost every important count, from the size of the public sector deficit to the degree of state support for manufacturing and from the level of inflation to the number of jobless, Italy is out of line.

At the same time, the economy is moving into recession after a decade of growth, amid signs that Italy's traditional pillars of success – a protected market, a dominant public sector, and strong export-led private sector earnings – are no longer so solid. Italy lags behind its main partners in the degree and depth of liberalisation; state subsidies remain high and the state-dominated financial system has been slow to open up to competition; the stock market lags at least two years behind Spain's in modernising its operations.

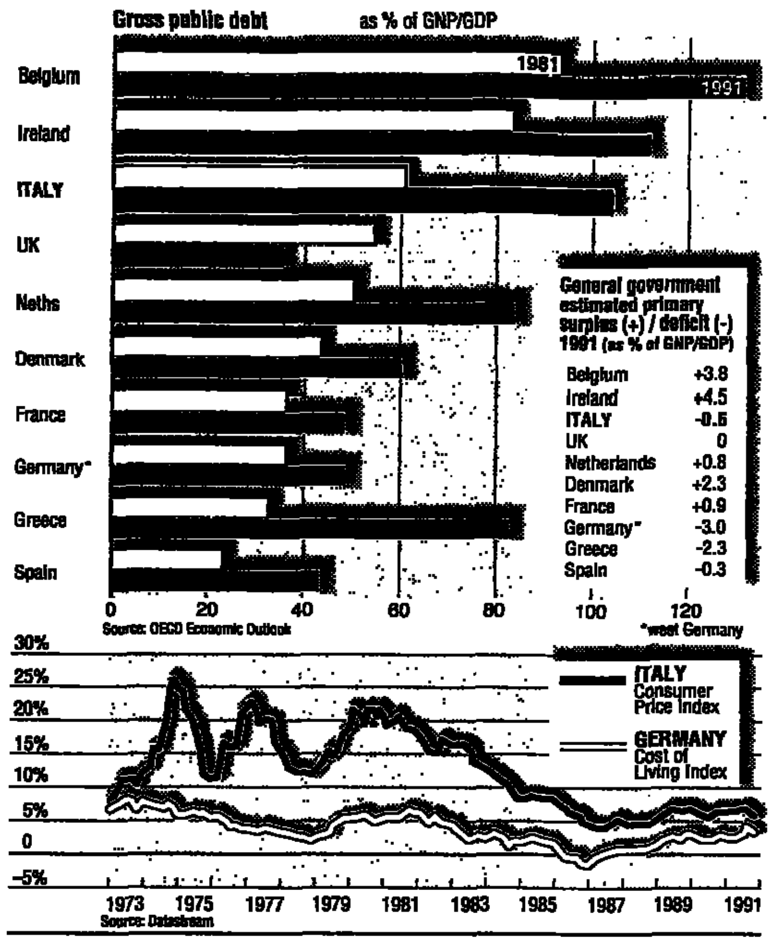
The public sector deficit is now more than 10.5 per cent of gross domestic product and debt service accounts for nearly all of this. Total state debt, equivalent to a third of all EC government debt, amounts to 102 per cent of GDP. Although such a percentage of debt is close to those of Belgium and Greece, it is half the level in those countries Italy wants to emulate. The overall degree of protection and subsidy is far higher than in Italy's key partners. The latest complete figures, 1986-88, show state aid produced 7 per cent of the gross annual increase in value of manufactured goods, compared with an EC average of 4 per cent.

Annual inflation remains obstinately above 6 per cent, nearly double the EC average. Unit labour costs, spurred on by high public sector wage increases and rigidities in the labour market, are now rising above those of Germany or the UK. Unemployment has reached nearly 11 per cent, at the top end of the EC scale, and these figures do not include the increasing number of people given early retirement or temporarily laid off.

In the public services, monopoly, overmanning and poor management continue to encourage inefficiency. On the railways, for instance, Italy employs 13.4 people per kilometre of lines, against 9.1 in the UK and 6.2 in France.

In spite of all these deficiencies, Italy – largely thanks to the influence of the Bank of Italy and the Treasury – has demonstrated a will to move in line with the EC on monetary union; in January 1990 it joined the narrow band of the European exchange rate mechanism (ERM). But while membership of the narrow band has stabilised the lira, it has also led to an accumulation of problems.

A recent study by the Centre for European Policy Studies argued that stabilisation of the currency had been an "anti-inflationary instrument", but that Italy had failed to improve productivity or encourage long-term capital inflows. Before 1990, Italian industry had been able to improve its competitiveness by taking advantage of a devaluing lira; after entry to the narrow band this was no longer possible. The government has subsequently sought to ease the burden on industry by reducing taxes, mainly where they affect social security contributions – but this in turn has led



to a ballooning of the budget deficit. Indeed, the CEPS study concluded that a realignment of the lira would be inevitable unless the budget deficit was drastically reduced.

Reduction of the public sector deficit is now the top priority of the four-party Christian Democrat-led government. Last week, the government obtained the grudging approval of the European Commission, which is now monitoring the Italian budget for the first time as part of its increased surveillance of EC economies, for plans to reduce the budget deficit to 5.5 per cent of GDP by 1994. However, this aim has to be measured against the indifferent effort to control public spending this year and further timid proposals in the as-yet-unapproved 1992 budget.

On the most optimistic projections, the 1992 budget will only contain the deficit, since no attempt is being made to undertake more profound structural reform. Little emphasis has been placed on cutting spending. Plans to reform the generous state pension scheme, gradually raising the pensionable age for women from 55 to 60 and for men from 60 to 65, have been debated, but so far inconclusively. Instead, the budget anticipates extra receipts as a result of reduced tax avoidance following a big tax amnesty (the second in 10 years) and privatisation sales.

Enormous scope exists for privatisation, but this is being held back by the difficulties of decision-making in fractious coalition governments and the limited size of local financial markets. As it is, the 1991 budget's projected income from privatisations seems unlikely to materialise; sale of only one of the two state-owned banks which were to provide the bulk of the funds has been approved so far.

The weakness of the 1992 budget reflects politicking in the run-up to the general elections due at the latest by next May, to be followed by the choice of a successor to President Francesco Cossiga in July. None of the coalition partners is willing to risk electoral unpopularity by squeezing spending. Thus, effective measures to tackle the deficit are improbable before the 1993 budget next autumn, if then.

Italy's electoral system and the resulting proliferation of parties, now dominated more than ever by personalities rather than ideologies, spawns weak coalition governments. In the past, this has suited more Italians than it has inconvenienced. But today such a political system is out of step with reality, and seems incapable of reforming itself on a scale or at a speed to match the needs of the emerging EC.

The public Treasury has been bled by politicians handing out patronage and a public which tends to regard the state as a limitless source of funds. Thus, industry has sucked in subsidies and labour secured high wages through indexation; government has also been powerless to prevent the growth of organised crime or to check the vast underground economy.

Stability has been achieved and an unprecedented level of well-being spread throughout the country, but this private prosperity is at the expense of public sector indebtedness. For instance, the remarkable dynamism of Italy's small companies, the secret behind much of the country's post-war economic miracle, can be attributed in part to their escaping the tax net. There is growing recognition that the system has to change; but attempts to pin responsibility for change degenerate too often into a game of mutual recrimination. As for the ageing generation of politicians clinging to power, they can scarcely be expected to reform a system that has served them so well.

Italy thus approaches Maastricht with a weak economic hand and a poor record of compliance with EC rules. If strict criteria are to be applied for consolidating Emu, then the days are over when Italy could blithely pretend to be a good European, promising in Brussels to accept rules which it knew it was unlikely to implement at home.

This is why Mr Andreotti and his ministers are expected to shift the debate towards *political* criteria for Emu. They are convinced they can bargain on the grounds that if Italy were to be excluded from the top division, Europe would be unbalanced and German hegemony over the EC consolidated. Mr Gianni De Michelis, the Italian foreign minister, believes a two-tier Europe politically impossible. Instead, he talks more ambiguously of European countries moving at different speeds within a framework of unity. But even if he is right, the pressures on Italy to reform are unlikely to go away.

PERSONAL VIEW

Windfall gains from Brussels

By Andrew Tyrie

Would you believe it if the European Commission came up with proposals that would make Britain better off by up to £1bn a year? Well, it has happened. The so-called MacSharry II package of agricultural reforms proposes large price cuts for beef, cereals and milk. This marks a decisive step away from market manipulation, through price support and export subsidies, and back towards direct compensation to farmers.

The package would deliver large gains to Britain in lower food prices, partly offset by increased EC expenditure and also a fall in some farm incomes.

Mr Ray MacSharry, the EC agriculture commissioner, has published estimates of what the consumer would gain under his plan. Britain's share of this gain would be about £1.5bn. Mr MacSharry has also costed his proposals. Calculating Britain's share of the extra expenditure is complicated, but a plausible guess is between £300m-£350m. Some of this would be spent anyway as a consequence of the inexorable rise of Cap spending.

Large farms' incomes would also be hit: the National Farmers' Union estimates the net fall, on immediate implementation, to be 30 per cent of farm income, implying a total loss of about £390m. But the five-year phasing of the package would give farmers time to adjust, yielding smaller losses.

Subtracting the higher public spending and the loss of farm income from the consumer benefit still delivers a large net gain to Britain.

So here we have that rare thing, a proposal from Brussels by which Britain could take the rap in increased public spending, could fully compensate our farmers (there are ways of doing this) and still obtain the equivalent of nearly a halfpenny off income tax.

MacSharry II has its faults: the costs may be underestimated; there would be more quotas; implementation could be a nightmare. Nor has Mr MacSharry taken on the citrus, wine and olive oil producers.

These points are rightly pressed in Brussels by Mr John Gummer, the UK agriculture minister. He has the unenviable task of fending off a powerful producer group. But in criticising the proposals, Mr Gummer is neglecting the potential consumer gains and the wider political benefits which could flow from them.

Ironically, Labour has firmly rejected these proposals on the grounds that they would increase Cap expenditure; the opposition has not grasped that the increased spending would be vastly outweighed by consumer benefits targeted on the lower-paid, a group Labour claims to care about.

The losers from the Cap are not just consumers and taxpayers, but also those countries which could produce food more cheaply and which face near total agricultural protection. Among those are the liberated countries of eastern Europe and also some of the world's poorest nations, prevented by protection from earning foreign exchange crucial to their development.

The Cap is a testament to what happens when governments try to substitute for markets: excess production, corruption, high food prices, all administered with Byzantine complexity and little accountability. Governments are responsible for this mess, not farmers, who respond well to signals but have been sent the wrong ones.

Industrialised countries are finally staggering towards the conclusion that the post-war agricultural system, with its mercantilist quest for autarky in food production, must be dismantled. Here Britain should be leading the way.

MacSharry II may have been distorted by ugly agro-politics. But it is a start. It provides a chance to deliver lower food prices, (Britain should argue for *larger* price cuts), fully compensate farmers, and still deliver gains to Britain. Only a myopic deference to producer interests stands in the way.

The author is a former adviser to John Major at the Treasury.

LETTERS

Childcare is fundamental to future work arrangements

From Mr Tim Symonds.

Sir, Opportunity 2000 is to be welcomed for its key feature, namely that companies such as Sainsbury, BT, BP, and Midland Bank are waking up to one central fact of commercial life: good quality, widely-available and, above all, affordable childcare is the absolute fundamental for the work-patterns of the next century.

What is welcome about initiatives by such successful corporations is that they are putting pressure where it is now needed – on government.

As Lesley Abdela points out in her new equal opportunities guide on women at work, "Breaking Through the Glass Ceilings", many working parents pay an incredible one-third or more of their incomes on childcare.

A working parent on the lowest rate of tax has to earn £51 a week to pay for £35 childcare.

A nationwide, affordable system needs French-style tripartite participation and co-operation between government, employer and employee.

To compete with the quality of employees in other advanced economies we need childcare provision quickly.

Some small companies are already pointing the way and proving the thesis. Companies such as FI, the Body Shop and Dow-Stoker have a combination of ingredients including flexible working hours, job-share and nannies.

Linda Stoker of Dow-Stoker states unequivocally her company could not get hold of its quality staff without these provisions.

It is vital for companies to put pressure on politicians because no one in their right (let alone left) mind seriously believes the Treasury, with its basic housekeeping economics, would eagerly accept the costs for government to take a proper share in a national network of childcare.

Without the French-style tripartite principle, this country can never reach the 21st century, even with the passage of another 50 years.

Tim Symonds,
8 Potterne Wick,
Devizes,
Wiltshire.

Inward investors achieve high productivity levels

From Mr David Rees.

Sir, Edward Balls' otherwise interesting and illuminating review of the FT's study of comparative European unit wage costs ("A more level European playing field for labour costs", November 11) contains one important fallacy.

It is true that, once allowance is made for productivity differences, average unit labour costs are broadly equal across Europe. But this does not mean that there is no financial incentive to locate manufacturing in a relatively low-wage country like the UK.

Through the introduction of new technology, management techniques, training and work practices, inward investors are often able to achieve productivity levels above the average for the local economy.

For example, many studies have shown that foreign-owned manufacturers in the UK achieve significantly higher productivity levels than the average for UK manufacturing. Indeed, many foreign-owned companies in the UK, and in very low-wage countries like Portugal, achieve productivity levels in these countries comparable to those they achieve in their own (high-productivity) countries and elsewhere.

Clearly, the scope for these advances is greatest in low-productivity economies – which, as the article shows, are typically the countries with relatively low wages. It is therefore often possible for progressive economies to gain the benefit of relatively low wages in countries like the UK, without losing out on productivity.

David Rees,
partner, European Location Advisory Service,
Ernst & Young

Tories need Norman Tebbit to bring in the saloon bar vote

From Lord Monson.

Sir, Philip Stephens (November 13) refers disparagingly to Mr Norman Tebbit as "an Essex Man whose time has passed", and whose appeal nowadays scarcely extends beyond the confines of the saloon bar.

Mr Tebbit may not be the darling of the *bien pensants*. Nevertheless, are not "today's men" in the Tory party, so assiduously wooing the wine bar vote, in danger of alienating the numerically much more significant saloon and public bar constituency which Mr Major's predecessor had so successfully won over to the Conservative cause?

Lord Monson,
House of Lords,
Westminster, London

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

Go back to the Gold Standard

From Mr Terry Arthur.

Sir, It is most encouraging to read an economist with the reputation of Samuel Brittan suggesting (Stability vs animal spirits, November 14) that central banks should search for "some modern version of the Gold Standard". Drop the "some modern version of" (or preferably drop the central banks!) and the search for long-term stability would be over.

Terry Arthur,
23 St Mary's Street,
Stamford, Lincs

Use plant better

From Sir Ian Morrow.

Sir, The productivity of British manufacturing industry (other than textiles) is held back because expensive manufacturing plant is working fewer hours than our competitors in Germany and the US.

In these countries any investment proposal for plant is based on double-shift working, five days a week. If double-shift working was as common in UK engineering as it is in German engineering, there would be a marked improvement in UK productivity.

Enforceable contracts of employment assist German and US productivity as they eliminate strikes during the contract period. British employers have shown themselves very lukewarm to the government's proposal that contracts of employment with the unions should be legally enforceable in this country.

Ian Morrow,
2 Albert Terrace Mews, NW1

Registering design in industry should be easier

From Mr Iain Baillie.

Sir, Designers of analytical instruments, as reported by Mr Charles Batchelor ("The product's face is the company's fortune", November 12), who found that a box which "looked good" contributed considerably to success could have been singularly unfortunate in trying to retain exclusivity for that good design. If there had been no earlier history of the contribution of design to the commercial success of analysis equipment or the other types of industrial equipment listed in that article, the Registrar of Designs could have decided under Section 1(3) of the Registered Designs Act 1949 as amended in 1988 that the appearance of the article was not material, namely that aesthetic considerations are not normally taken into account by persons acquiring or using this type of article.

The burden is upon the designer to prove the design has commercial value, something which is difficult to do since the very sales that are necessary to prove commercial value will bar registered design protection. Various designers of machine tools and similar industrial equipment have already run into this problem.

An amendment in 1988 of the statute which was intended to solve a totally different purpose, ie prevention of protection for purely functional articles, has imposed an additional problem for good designers venturing into design for industry.

Parliament should act quickly to rectify this hindrance to British designers which vitiates much investment in good design.

Iain C Baillie,
Ladas & Parry,
52-54 High Holborn, London

FINANCIAL TIMES
Monday November 18 1991

End of the race: David Duke concedes defeat after his poor showing in the poll to elect Louisiana's next governor

Louisiana rejects ex-Klansman

By George Graham in New Orleans and **Lionel Barber** in Washington

MR DAVID DUKE, the former Ku Klux Klan leader, has failed in his attempt to become governor of Louisiana – but the sore points raised in his campaign could surface as potent issues in next year's presidential race.

Mr Duke lost heavily in Saturday's poll to Mr Edwin Edwards, a roguish Cajun who united his own Democrat supporters and Republicans to win a fourth term as governor with 61 per cent of the vote.

Enthusiastic Duke opponents – a coalition of longtime Edwards supporters, liberal Democrats, moderate Republicans and church and business leaders – marched and danced through New Orleans, hailing the result as a resounding rebuff to Mr Duke's appeal to racial issues.

Mr Duke ran as a Republican against Mr Edwards, but his Klan past and his very recent association with Nazi and white supremacist organisations had deeply embarrassed the Republican party, which disowned him.

His defeat was a relief for President George Bush, who had entered the fray by denouncing Mr Duke as "an insincere charlatan" after his favoured candidate, incumbent Governor Buddy Roemer, was eliminated in a first round of voting last month.

Mr Duke's defeat, however, does not resolve Mr Bush's difficulties with the right-wing of the Republican party and infighting over his re-election strategy next year.

US conservatives are becoming increasingly alarmed about Mr Bush's muddled message on the economy and his reluctance to support a tax-cutting growth package to appeal to disenchanted middle-class white voters, many of whom were attracted to Mr Duke.

Discontent is focusing on Mr John Sununu, White House chief of staff, who is manoeuvring to assume full control of Mr Bush's re-election campaign. Some Republicans blame Mr Sununu for bad advice, and believe his lack of national campaign experience could be a major handicap to the campaign, to be set up next month, ahead of schedule.

Mr Duke said after his defeat that he had no plans to run for president next year, but that he did want "to affect American politics". His supporters were mostly in subdued mood. After a series of elections in which their candidate had scored higher than opinion polls had suggested, they had expected the "iceberg vote" to emerge again. The weakness of his score surprised and disappointed many of them.

With only 39 per cent of the vote, Mr Duke fell short of his 44 per cent score in an election for the Senate only last year.

Mr Duke's opponents argued that if he could not win against Mr Edwards – 42 per cent of whose voters regard him as corrupt, according to an exit poll conducted for the Times-Picayune newspaper – he cannot win against anyone.

Others were not so sanguine. "The master of hatred and division has not disappeared just because his candidate was defeated," warned Reverend Ormonde Plater, deacon of St Anna's Church, New Orleans.

Even among Edwards supporters, there were many yesterday who complained about job quotas for minorities and about abuses of the welfare system, two of Mr Duke's main complaints, and voters' resentments on these scores have certainly not been salved.

"Other politicians without his past are going to steal those issues and win with them," said New Orleans resident Mr Glenn Schmidt.

IMF to criticise size of German deficit

By Christopher Parkes in Bonn

GERMANY'S self-inflicted financial troubles, especially the mounting budget deficit, are about to come under fire from the International Monetary Fund (IMF), Mr Helmut Schlesinger, Bundesbank president, said at the weekend.

The IMF's forthcoming annual report will remind the German government of the global side-effects of its large deficit, notably increased demands on international reserves, said Mr Schlesinger, who was speaking at a meeting of the International Institute of Human Affairs in Pamplona, Spain. The report will also include calls for reduced state subsidies, he added.

In Bonn, meanwhile, a coalition committee fixed the 1992 federal budget in a deal which ignored a cabinet decision that state subsidies had to be cut by DM10bn ($6bn) this year. Public spending for the new year will increase by 2.9 per cent to DM422bn, increasing the federal borrowing requirement by DM45bn.

Mr Jürgen Möllemann, economics minister, insisted last week that subsidies would be cut by DM10bn a year for the next three years. Even so, the agreement fulfilled Bundesbank demands that spending growth should be kept under 3 per cent.

Criticism from the IMF will increase pressure on a government confronted by huge budgetary demands from the east and a population angered by the costs of unification.

Mr Schlesinger said state transfers to the east would reach DM140bn this year, equal to two thirds of national product in the former DDR, or DM9,000 per inhabitant. "The most important goal of national policy must be to reduce the public sector deficit to a manageable level."

The Bundesbank, which has warned repeatedly of the dangers of the unification process and its consequences for prices, wages and subsidies, was "increasingly watchful", Mr Schlesinger said. The current inflation rate of 4 per cent, which was widely expected to continue, was not acceptable.

"The aim of our policy is price stability – an inflation rate in any circumstances of no more than 2 per cent", he added, hinting again that the Bundesbank's patience and its monetary targets had been stretched to the limit.

His intervention followed a week of dire economic warnings from Bonn. Mr Johann Eekhoff, state secretary in the Economics Ministry, said recession might be unavoidable if demands on pay and the public purse were not reined in.

Dangers of wide share ownership

By Anthony Harris

THE downward lurch on Wall Street on Friday is an uncomfortable reminder that even long-awaited events can happen when you least expect them. For some time, even US bulls have admitted that price/earnings ratios around 20 are too demanding, and that failing a bounce in the economy, a market correction of about 10 per cent would be natural. This suggests that the fall could well be extended today; and that even if it is not, Wall Street will be waiting for the second shoe to drop.

London is not so exposed in terms of ratios, but would hardly be immune. Mr Francis Maude, the financial secretary to the Treasury who has emerged as sales manager for the second tranche of BT, must hope nobody tells the small shareholders. But will anybody else greatly care if the response is a bit limp?

The government has not enjoyed much applause for this final drive towards a share-trading democracy. The company is unpopular, the playing field is tilted and the City resents the loss of business. This feeling has been muttered rather than shouted, but there have been plenty of volunteers to appear on television with health warnings about the dangers of one-share portfolios, or of trading in share shops without advice.

These are niggles, though; there has been no challenge to the underlying belief that wider share ownership (hereinafter WSO) is a Good Thing. Yet just what is the objective? The profits of share ownership were democratised long ago through pension funds and unit trusts. Small shareholders notoriously don't vote, so it can hardly be an attempt to democratise company control. The WSO movement's hope that share ownership will create economically responsible citizens is unsupported by any evidence, and in principle seems about as convincing as trying to foster kindness to animals by encouraging betting shops.

The question really resolves itself to two issues: the government's hope that share owners will vote Tory, and whether WSO does any actual harm. The political gain may be insecure: share owners (like house-owners) are likely to feel grateful only as long as prices are rising. And the economic cost may be considerable, according to a study published a short time ago in another context – a report* on the appropriate financial model for the ex-Communist economies. The authors, Colin Mayer of the London Business School and Jenny Corbett, an Oxford expert on Japan, come from an Anglo-American business culture; but they have rejected it.

Their study comes down firmly against the Anglo-American wide share-ownership model as a source of growth and innovation. They prefer the "insider" or cross-holding-cum-bank-held-equity structure

The government has not enjoyed much applause for the final drive towards a share-trading democracy

found in most of western Europe, and in Japan, which combines committed ownership with competitive product markets. This advice is addressed to the Poles and the Czechs, but it is clear that the authors would apply it with equal force in Britain.

The core of their case is the question of corporate governance. This is a problem, as they point out, which does not exist in Germany or Japan; our more successful competitors must wonder what the current Anglo-American debate is about. M & C see it as a problem we have wished on ourselves, by insisting on wide ownership and liquid secondary markets. Wide share ownership, they argue, results not in shareholder control, but in no control at all as long as things go reasonably well. Shareholders are free riders: they get benefits without responsibilities.

The hostile bid is usually described as the final sanction against inefficient management. According to M & C, it is the only sanction; and since bidders are mainly attracted by the smell of blood – the weak share price which results when creative accounting reaches its limits, and disillusioned shareholders sell – it is usually applied too late. This problem is widely recognised, and the fashionable remedies are shareholder education and assertiveness training for the institutions.

No use, say M & C. Stock market rules are designed to make it easy to sell, and actually prevent shareholders getting the price-sensitive information which would enable them to assert control – unlike German bankers, who hold equity and get management information and board seats. They also have more motivation than English-speaking equity-holders. Individual investors are advised to diversify their portfolios, and professional managers legally bound to do so.

Result: what might be a life-and-death problem for a company barely disturbs the peripheral vision of its owners. The problem reflects a fundamental conflict in the Anglo-American approach: you can devise a system optimised for providing risk capital, or for minimising investor risk, but no system can do both.

Oddly enough, this widely-recognised difficulty has forced the English-speaking systems to develop one feature recommended to the new capitalist countries in the study: a specialised system of venture capital. But the general conclusion stands: aspiring capitalists should go first for banks which really invest, get inside information and share profits as well as losses. They may not be able to afford the luxury of a stock market yet.

The conclusion seem to me a bit too black-and-white for the new capitalists to whom it is addressed. The emerging stock markets are hardly paragons of liquidity and transparency; their appeal is more to venture capitalists than to pension funds. They also have an important function not explored in the report: to persuade local capitalists to keep their funds at home. The homing of flight capital is the sure sign that a problem economy has turned the corner.

But the questions the study raises for mature capitalist economies are acute; and at a time when European capital markets are being harmonised, they may be acutely relevant.

**CEPR Discussion Paper No 603; Centre for Economic Policy Research, 6 Duke of York St, London SW1Y 6LA. £3*

Federal army takes Vukovar

Continued from Page 1
gains made by Serbia and the federal army in Croatia. But it will not end the fighting.

Western diplomats said the army and Serb nationalists and reservists could now turn their attention to Osijek, the capital of eastern Croatia.

Osijek, north of Vukovar and south of the Hungarian border, has undergone bouts of heavy bombardment since August. Any attacks on the city, or on those along the Adriatic Sea, could influence this week's diplomatic overtures.

In Belgrade, the federal and Serbian capital, Mr Cyrus Vance, the UN special envoy, and Mr Marrack Goulding, an expert on peacekeeping forces, yesterday began a series of meetings with Croat, Serb and federal army officials.

These follow attempts by Lord Carrington, the chairman of the European-Community sponsored peace conference on Yugoslavia, to broker the 13th ceasefire in Croatia as a pre-condition to eventually sending UN peacekeeping troops into the republic.

The ceasefire came into effect at 17.00 GMT on Saturday. Although there was a lull in the fighting around the medieval city of Dubrovnik, Croatian radio reported that Osijek was shelled by federal army units, while the fighting in Vukovar continued unabated.

Both sides blamed each other for breaching the ceasefire.

In Bonn, foreign ministers from the nine-member Western European Union, will today discuss Yugoslavia after first holding talks on Nato, and the Maastricht Summit.

A UK official yesterday said he expected the WEU would consider assisting humanitarian relief efforts in Dubrovnik and Split, as well as supporting the UN's peacekeeping forces.

Meanwhile, Germany is continuing to press ahead with its campaign for the earliest possible diplomatic recognition of Croatia and Slovenia.

The leaders of the two republics have been invited to Bonn in early December for discussions on their independence, and by implication on recognition of that independence, according to senior officials.

Baker wins concessions on trade and arms from China

By Our Foreign Staff

MR JAMES BAKER, US secretary of state, yesterday announced a series of modest concessions from China on key issues hampering relations between the two countries – trade, prison labour and arms proliferation.

He expressed dissatisfaction, however, with Beijing's stance on human rights, and his visit did not mean that relations, disrupted by China's 1989 crackdown on dissent, were normalised.

The authorities tightened security at Beijing college campuses to bar any disturbances during Mr Baker's visit. Also, two Chinese women – a journalist and the wife of a jailed dissident – were detained and so unable to meet the secretary or his aides.

Mr Baker's announcement followed the extension of his final round of talks with Mr Qian Qichen, Chinese foreign minister, after talks with senior Chinese leaders on Saturday had made no progress.

Mr Baker said China had conditionally agreed to accede to the Missile Technology Control Regime (MTCR). Beijing had also pledged to push through parliament by the end of the year legislation enabling its accession to the Nuclear Non-Proliferation Treaty within three months of parliamentary ratification.

China agreed in principle the text of a memorandum of understanding to set procedures by which it would ensure prison-made goods did not enter US markets.

Mr Baker may hope the modest concessions won from Chinese leaders on trade and arms sales will stave off US congressional pressure for a tougher policy toward Beijing.

The House and Senate are negotiating the final draft of a bill which would renew most-favoured nation trade status for China. The Senate version contains an amendment which would revoke the privilege if China were to provide medium-range missile or nuclear technology to Syria or Iran.

China's agreement to accede to the MTCR seems a step towards meeting Senate demands, but China only agreed provided the US lifted sanctions imposed in June on two Chinese companies in the arms trade, Mr Baker said.

Limited fall in UK shares expected

By Simon London in London

SHARE prices in London are this morning expected to follow Wall Street's fall, although City economists believe losses will be limited.

"There was no single reason for the fall in US share prices on Friday and there is no reason why other markets should move sharply lower," commented Mr Patrick Foley, chief economist at Lloyds Bank.

Analysts said the FT-SE 100 index could fall by up to 50 points this morning in a knee-jerk reaction to events in the US on Friday. Whether this is carried through into a wider sell-off may depend on the mood in the US when markets open there.

Analysts noted that both the UK and US stock markets had risen by nearly a quarter this year. At the close of trading on Friday the FT-SE stood at 2,546, up 24 per cent from the year's low in January. The Dow Jones Industrial Average reached a peak of 3,063 on Friday morning, also up 24 per cent on the year.

But London shares are seen as more conservatively valued than US stocks and less likely to see a sustained correction.

The Dow Jones Industrial Average was trading on a multiple of about 22 times earnings before Friday's correction, compared to a multiple of 15.5 this time last year.

The FT-All Share index is currently trading on a multiple of just under 15 times earnings. Analysts expect a period of consolidation in London against a background of a sluggish economic recovery and political uncertainty ahead of the general election.

The same is true of continental European markets such as France and Italy, where political uncertainty and weak economic performance are seen as preventing any major advance in share prices.

Shares are vulnerable to signs that UK economic recovery is weaker than anticipated. On Wednesday, the FT-SE 100 index fell 29 points following the release of industrial production data which showed manufacturing output unchanged during September.

While both the UK and the US markets are facing a weak economic recovery, London has been buoyed by a steady reduction in UK inflation. Retail price inflation is at a year-on-year rate of 3.7 per cent in October, down from 4.1 per cent in September.

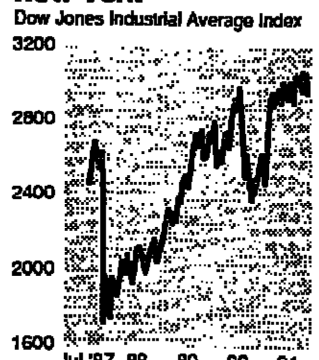
US markets

Continued from Page 1
The proposal still has to be approved by the House of Representatives, and even if it were, close allies of the president have said he would veto the legislation.

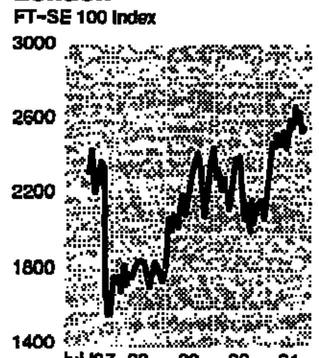
Few analysts believe the stock market is facing a repeat of the October 1987 crash, or even the mini-crash of October 1989.

Part of last Friday's decline was attributed to technical selling of options, and to bad corporate news.

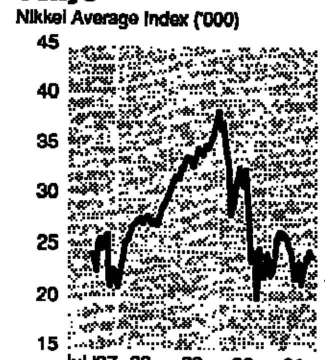
New York
Dow Jones Industrial Average Index



London
FT-SE 100 Index



Tokyo
Nikkei Average Index ('000)



Source: Graphite Data

WORLDWIDE WEATHER

UK today: Cloud and rain over many central and northern areas of England and Wales will move north, turning to sleet and snow over higher ground. Further south there will be coastal showers, becoming widespread. It will be generally windy, with gales in the north and west.
Outlook: Cloudy, with rain. Becoming cooler

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	15	59	Bordeaux	Dr	10	50	Dallas †	C	12	54	Innsbruck	F	2	36
Algiers	F	20	68	Boulogne	R	10	50	Dublin	R	5	41	Inverness	R	4	39
Amsterdam	C	2	36	Bristol	F	6	43	Dubrovnik	S	15	59	Isle of Man	F	8	46
Athens	F	22	72	Brussels	C	3	37	Edinburgh	Fg	3	37	Istanbul	[illegible]	[illegible]	[illegible]
Bahrain	-	-	-	Buenos Aires	-	-	-	Faro	S	20	68	Jersey	R	9	48
Barcelona	S	14	57	Budapest	R	7	45	Florence	F	11	52	Johannesburg	-	-	-
Belfast	F	4	39	Cairo	-	-	-	Frankfurt	C	4	39	Las Palmas	F	21	70
Belgrade	S	17	63	Cape Town	-	-	-	Geneva	S	5	41	Leeds	Fg	0	32
Berlin	Dr	4	39	Cardiff	C	5	41	Gibraltar	S	19	66	Lisbon	F	17	63
Biarritz	R	10	50	Chicago †	F	6	43	Glasgow	C	0	32	Locarno	F	14	57
Birmingham	C	3	37	Cologne	S	6	43	Guernsey	R	9	48	London	C	4	39
Blackpool	C	7	45	Copenhagen	C	4	39	Helsinki	S	2	36	Los Angeles †	S	11	52
Bombay	-	-	-	Corfu	F	17	63	Hong Kong	-	-	-	Luxembourg	Fg	0	32

		°C	°F			°C	°F			°C	°F			°C	°F
Madeira	[illegible]	[illegible]	[illegible]	Nairobi	-	-	-	Prague	C	1	34	Tangier	F	17	63
Madrid	R	14	57	Naples	F	14	57	Reykjavik	S	1	34	Tel Aviv	F	23	73
Majorca	F	17	63	Nassau	-	-	-	Rhodes	F	19	66	Tenerife	Dr	23	73
Malaga	F	18	64	Newcastle	F	6	43	Rio de Janeiro	-	-	-	Tokyo	F	15	59
Malta	[illegible]	[illegible]	[illegible]	New Delhi	F	19	66	Rome	F	17	63	Toronto †	S	-7	19
Manchester	F	5	41	New York †	S	3	37	Salzburg	S	3	37	Tunis	F	15	59
Melbourne	-	-	-	Nice	[illegible]	[illegible]	[illegible]	San Francisco †	C	11	52	Valencia	F	18	64
Mexico City	-	-	-	Nicosia	S	22	72	Santiago	-	-	-	Venice	F	12	54
Miami †	S	22	72	Oporto	C	14	57	Seoul	S	11	52	Vienna	R	4	39
Milan	S	15	59	Oslo	C	-5	23	Singapore	F	28	82	Warsaw	R	7	45
Montreal †	S	-7	19	Paris	F	9	48	Stockholm	C	-3	27	Washington †	S	4	39
Moscow	C	5	41	Peking	S	13	55	Strasbourg	F	7	45	Wellington	F	16	61
Munich	Sn	1	34	Perth	F	21	70	Sydney	F	20	68	Zurich	F	3	37

Temperatures at midday yesterday † Noon GMT temperatures C – Cloudy Dr – Drizzle F – Fair Fg – Fog H – Hail R – Rain S – Sunny Sl – Sleet Sn – Snow T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday November 18 1991

INSIDE

Bank of America may sell $4bn of assets

Bank of America may divest itself of $4bn-worth of assets as part of its planned merger with Security Pacific Bank. The merger, likely to be completed during the first quarter of 1992, will create the leading commercial bank in the western US. BankAmerica mentioned the possible asset disposals in a filing with the Securities and Exchange Commission. Page 19

Repsol net profits rise 1.8%

Repsol, the state-controlled Spanish oil and gas conglomerate, saw net profits rise 1.8 per cent in the first nine months of this year. Operating profits, calculated on a "last in first out" basis, rose 33 per cent. Page 19

Fuji Heavy Industries cuts loss

Fuji Heavy Industries felt the benefits of a restructuring programme in the first half when it cut pre-tax losses and posted a small operating profit. Much of the improvement came from a cost-cutting programme – overseen by Nissan Motor, its biggest shareholder – which trimmed general sales and administrative expenses in the US and Japan. Page 19

Continental to sell slots

Continental Airlines, the US carrier, is to sell a large portion of its operational assets at LaGuardia, New York's domestic airport, with six slots at Washington National airport, to USAir. Page 19

Company doctors to the rescue

This week sees the setting up of the UK's first company specialising in corporate rescues – better known as the company doctor. The new enterprise, Postern Executive Group, has received encouragement of the Bank of England, which is concerned that there are too few UK company doctors with the skills necessary to stop a financially troubled company going into receivership. Page 18

Yorkshire 'beats off' challenge

Yorkshire Television appears to have beaten off a challenge from White Rose Television in the battle for the Yorkshire region television licence. Yorkshire believes it has the support of more than 50 per cent of its shareholders for accepting the licence. The issue will be put to an extraordinary general meeting in Leeds on Wednesday. Page 18

France targets insurers for partial sell-off

By Alice Rawsthorn in Paris

THE French government plans to sell off part of its holdings in the state-owned insurance companies as it proceeds with its partial privatisation programme.

The government owns more than 70 per cent of two insurers, Assurances Générales de France (AGF) and Groupes des Assurances Nationales (GAN). It also holds a 55.7 per cent stake in Union des Assurances de Paris (UAP), France's biggest insurance group.

Mr Dominique Strauss-Kahn, minister responsible for industry and foreign commerce, yesterday told a conference in Paris that the government intended to change the law to enable it to reduce its minimum investment in the insurers to 51 per cent. He said that Mr Pierre Bérégovoy, finance minister, planned to act "quickly" on the issue.

UAP, AGF and GAN are three of the five largest companies in French insurance. UAP saw its sales rise to FFr97.3bn ($17.5bn) last year, two thirds more than those of Victoire, the company controlled by Compagnie Financière de Suez which is UAP's closest competitor.

AGF, the fourth largest French insurance company, last week announced a 21.2 per cent increase in turnover to FFr40.4bn for the first nine months of this year, against FFr45bn in 1990.

GAN, the fifth biggest insurer, recently announced a slight increase in net profits to FFr362m for the first half of this year.

France is one of Europe's largest insurance markets. The life market was worth FFr206.5bn in 1991, according to the Fédération Française des Assurances, and the accident market FFr200.8bn.

The state insurers, like their privately owned competitors, have recently been expanding their international interests.

The proposed sale of shares in the insurers marks the latest phase in the French government's partial privatisation programme. The insurers were mooted as likely candidates for partial privatisation when president François Mitterrand sanctioned the sale of minority stakes in state-owned companies in September.

Late last week, the French government announced the sale of a 2 per cent holding in Elf Aquitaine, the oil group, to raise more than FFr2bn.

Today Mr Bérégovoy will disclose details of the sale of 25 per cent of Crédit Locale de France, a bank specialising in lending to local authorities, to raise an estimated FFr2bn.

Royal Insurance and Eagle Star ratings downgraded

By Simon London in London

ROYAL Insurance and Eagle Star, both hit by losses from mortgage indemnity insurance, have had their financial strength ratings cut by two notches by Moody's Investors Service, the US credit rating agency.

Moody's reduced both companies' ratings from Aa2 to A1. It also cut Royal's short-term credit rating from Prime-1 to Prime-2.

Last week Royal announced underwriting losses on mortgage indemnity insurance of £173m ($306m) for the nine months to the end of September.

These contributed to the company's pre-tax loss of £214m for the period.

Moody's added that increasing competition for insurance business made it more difficult for UK insurance companies to generate capital by retaining earnings.

The downgrading of Royal's short-term credit rating is likely to increase the cost of funding from the commercial paper markets.

The company has commercial paper programmes in both Europe and the US.

Royal is also under pressure to raise capital, which could come in the form of a bond issue, a rights issue or links with European competitors.

Royal recently confirmed that it was in talks with Aachener und Munchener of Germany and Fondiaria of Italy about a deal which could raise £245m in capital.

However, a deal on this scale with the European insurers would only increase Royal's solvency ratio to about 40 per cent, considered too low by industry analysts.

A solvency margin of about 50 per cent is seen as comfortable by analysts, suggesting that additional capital will have to be raised from the markets.

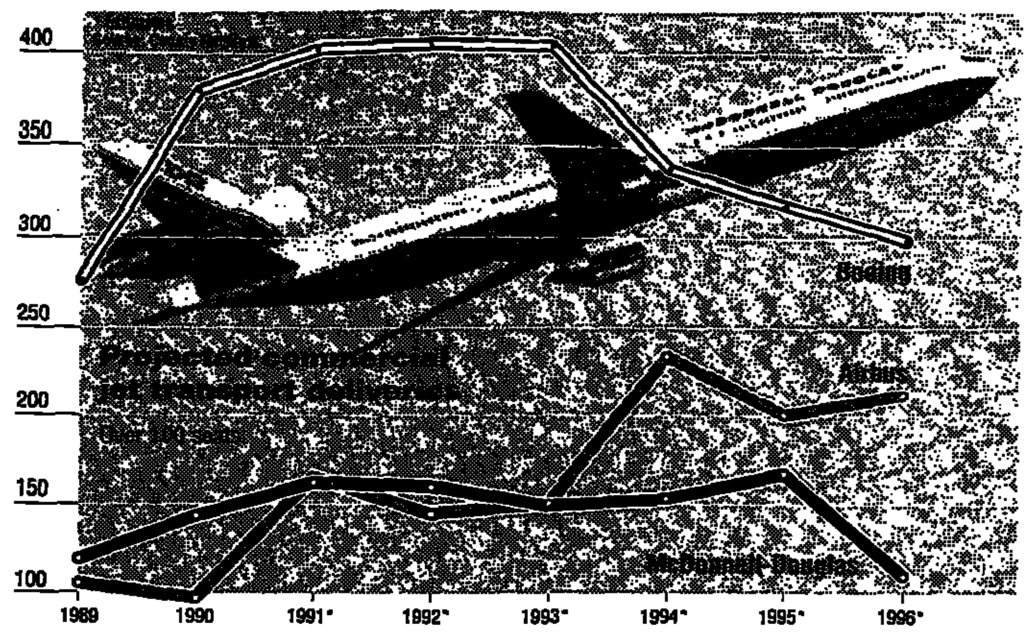
Martin Dickson reports on McDonnell Douglas's vital search for partners

Flight path to the Orient

McDonnell Douglas, the financially stretched US aerospace group, is developing a flight plan which could clear away some of the biggest clouds enveloping its future as a manufacturer of commercial aircraft and shift the industry's global balance of power.

But if the plan fails, it could mark the first stage in a slow, inexorable departure by the US company from the civil aviation business.

For months McDonnell Douglas has been knocking on doors across the Pacific rim in search of partners to develop a three-engined, wide-bodied aircraft – the MD12 – which could prove vital to its survival against its rivals, Boeing of the US and Europe's Airbus Industrie.



Last week came the first sign that those negotiations – to find equity investors and risk-sharing subcontractors to make MD-12 parts – were making progress. McDonnell Douglas confirmed rumours that a group of investors was considering spending up to $2bn to buy a 40 per cent stake in its commercial aircraft business, based in Long Beach, California.

Taiwan Aerospace, a new joint venture between the Taiwan government and local industry, acknowledged that it was one of the potential investors, and indicated that it might buy the 40 per cent stake on its own.

However, a deal still seems some way off. Taiwan Aerospace acknowledges that $2bn is beyond the resources of a company capitalised at $389m. A final deal would need the political backing and financial support of the Taiwan government, which is keen to expand the country's fledgling aerospace industry.

Companies in Japan, Korea, Singapore and Indonesia might also take small equity stakes in Long Beach or enter risk-sharing agreements to manufacture parts for the MD-12.

Whatever its final form, a marriage with Asian partners would help solve some of McDonnell Douglas's most pressing financial problems. It might also transform its commercial operations into a Pacific Rim counterpart to Airbus Industrie, which assembles in France aircraft parts manufactured by companies across Europe.

McDonnell Douglas believes its Asian venture could give it two important advantages over Airbus and Boeing. First, it could substantially cut manufacturing costs by farming out large parts of its manufacturing process to nations with cheap labour.

Second, equity and manufacturing ties with these nations could give it added political muscle in the battle to sell aircraft into the Pacific Rim, which analysts expect to be the fastest growing world market during the next 20 years.

Ties between western aerospace groups and Asian countries are not new. Japanese aerospace companies, for example, have long assembled military aircraft under licence from western groups: Mitsubishi Heavy Industries produces the F-15 under licence from McDonnell Douglas.

In the civilian aircraft arena, Japanese companies have moved on from being simply subcontracting parts suppliers to join risk-sharing joint ventures with western partners, notably with Boeing in the development of the 777 wide-bodied jet.

It is also routine for large western manufacturers to offer to source parts locally in newly industrialised countries in an attempt to win sales contracts for their aircraft. Taiwan Aerospace, for example, acknowledged on Friday that it had also been discussing co-production of parts with Boeing and Airbus.

McDonnell Douglas has extensive ties with China, which assembles the US group's twin-engined mid-range MD-80. The Beijing government is also negotiating a co-production contract which would involve Chinese companies building large parts of the MD-90, an upgrade to the MD-80, and McDonnell Douglas announced last summer that this might lead to production of a smaller version – the MD-95 – entirely in China for the world market.

The MD-12 initiative, however, differs in the scale of the risk-sharing and parts manufacturing in Asia for a product which would be assembled in the US: and in the fact that the Asian partners would have a large, though minority, equity stake in the business.

These factors could cause serious political problems. The White House and Congress are increasingly concerned about the loss of US high technology expertise to Asian rivals – and this anxiety will be particularly acute in the case of McDonnell Douglas, the nation's leading defence contractor.

Boeing keeps its Asian joint venture partners away from its most sensitive design and wing manufacturing technology, and politicians may suspect the Asians of trying to glean this expertise by targeting the industry's weakest link – McDonnell Douglas.

Moreover, the mutual antipathy between China and Taiwan could cause problems in Beijing, which is hardly likely to welcome a large stake by Taipei in such a close US business partner.

In short, the Asian venture still has to clear some large hurdles, yet it is vital for McDonnell Douglas that it does so quickly. The MD-12 is crucial to its efforts to survive in civil aviation alongside the much larger Boeing (see chart) and the fast-growing, government-backed Airbus Industrie, which has ousted McDonnell Douglas from second place in the world league in terms of aircraft on order.

McDonnell Douglas is hampered by the fact that while its rivals have full families of aircraft to offer airlines, it has just two: the MD-80 and the MD-11, a wide-bodied three-engined jet introduced late last year as a successor to the DC-10. This aircraft faces direct competition from the Boeing 777 and the new Airbus 340.

The company needs to produce about 300 MD-11s to recoup its investment in the aircraft but at the end of September its firm orders stood at 156, with 179 options and reserves, down from 175 firm orders and 197 options at the end of 1990. That is partly a reflection of the financial difficulties facing the world's airlines, which have deferred deliveries of aircraft from manufacturers and cancelled options. American Airlines, for example, announced on Friday an $8bn cut in its five-year capital spending programme, including options on 11 MD-11s.

However, a firm development programme for the MD-12 might encourage more airlines to buy the McDonnell "family". The MD-12's most direct competitor is the highly profitable Boeing 747-400, but McDonnell Douglas claims that its aircraft, with the ability to carry 375 passengers 9,200 statute miles, will be more efficient on long-haul routes.

The aim is to begin delivering the MD-12 in 1997, but McDonnell Douglas needs to find $4bn for development costs, and it cannot do that alone. Its balance sheet has been seriously stretched by the $3bn spent developing the MD-11 and, while its gearing has been falling over the past six months, debt still stands at $2.7bn, giving a high debt-to-equity ratio of 0.82.

The Asian negotiations, therefore, constitute a turning point. If they fail, the company may face a slow exit from the commercial sector during the next two decades. If they succeed, the negotiations will give McDonnell Douglas the chance to remain a powerful third force – and allow a third continent a place in the aerospace industry's first division.

Calling all spirits of recovery

Glendower: "I can call spirits from the vasty deep."
Hotspur: "Why, so can I, or so can any man. But will they come when you do call for them?"

This exchange, from Shakespeare's King Henry IV, Part 1, just about sums up the current state of debate about Britain's economy.

The government, in the shape of Mr Norman Lamont, the chancellor, and the Bank of England, seems more and more like Glendower as it invokes indices of business and consumer confidence to demonstrate that recovery is at hand.

Businesspeople and City of London economists increasingly echo Hotspur's scepticism as one false dawn follows another and hard evidence of the long awaited upturn remains absent.

Where both sides might agree is that the "spirits" – or more properly, the animal spirits that the economist John Maynard Keynes identified as being necessary for growth – have yet to appear in force.

This is hardly surprising. Good news, such as last week's report of a lower-than-expected increase in October unemployment, has generally been offset by bad news such as the late summer flattening out in the decline of average earnings growth, or last month's higher-than-expected 3.7 per cent year-on-year inflation rate.

But the present hibernation of animal spirits is not just a UK phenomenon. Meetings in Paris last week of government officials forming the economic policy committee (EPC) of the Organisation for Economic Co-operation and Development and of the multinational group of business executives and economists who advise the OECD identified their absence as a matter of general concern in the industrialised world.

According to Mr Bernhard Molitor, the German Economics Ministry official who chaired the EPC, the committee agreed that "weak private sector confidence was at present holding back the pace of recovery" in the industrial world. By the end of two days of talks, the estimate for growth in the 24-nation OECD area next year had been scaled down to 2.6 per cent from 2.9 per cent previously.

The consensus was that growth had been postponed for a few months rather than aborted. Uncertainty about the recovery in the US was identified as a main culprit, as was excessive optimism among governments that the end of the Gulf war would trigger an economic upturn in the west.

So far, so good. But in many ways Mr Molitor's summary of the EPC discussions on the global economy displayed the same mixture of worry about economic events and vague optimism for the future that characterises the debate in the UK.

Mr Molitor admitted, for example, that the committee was puzzled about the slow growth of US monetary aggregates. Like Mr Lamont and the Bank of England in the case of the UK, the officials gathered in Paris could do no more than hope that past monetary easing in various parts of the world would lead to sustained recovery.

They came up with no new ideas for shaking the animal spirits of the industrialised economies back to life. Instead they reaffirmed their faith in medium-term policies to cut budget deficits and to improve the efficiency of their economies in financial markets and other areas. It is unclear whether such conclusions will encourage western consumers to consume or businesspeople to invest. The British government's Autumn Statement forecasts of a 6 per cent rise in the volume of British exports of goods and services next year and an 8 per cent jump in exports of UK products were looking somewhat optimistic before last week. In view of the uncertainty that characterised the Paris talks, it would seem wise to put a bigger question mark next to them.

Economics Notebook

By Peter Norman

Payments plans

The EPC achieved consensus on one important issue: that the industrialised countries should make their markets more open to goods from eastern Europe and the former Soviet Union.

It also agreed that eastern Europe and the Soviet republics should be encouraged to trade with each other and not close their borders to imports in the mistaken belief that this would help them ease the pain of transition to market-based economies. Encouraging intra-regional trade in the former Comecon block is easier said than done. But it is a challenge that is being taken up by an increasing number of western economists.

Many see the answer in the creation of a payments union, similar to the European Payments Union that played a vital role in the 1950s in freeing trade among west European countries and paving the way for their post-war prosperity.

Mr John Williamson of the Washington-based Institute for International Economics has suggested such a structure for the former Soviet Union, and Mr Jacques Attali's European Bank for Reconstruction and Development is studying plans for a payments union covering eastern Europe and the Soviet republics. Mr Rüdiger Dornbusch, of the Massachusetts Institute of Technology, has discussed the idea with representatives of the Soviet republics.

The old European payments union made its members' currencies fully transferable into one another and meant that the EPU members no longer had to worry about bilateral trade balances with each other. Instead, they settled their accounts each month with the system as a whole, which had the capacity to grant limited lines of credit, providing sound economic policies were pursued.

Sensible though such ideas might sound, it is too soon to conclude that they would work today. East European countries have already rejected such notions for fear that they would perpetuate Comecon trading patterns when their main object has been to move closer to western Europe.

The Soviet republics should be a more fertile ground for such proposals, especially if they create their own currencies from the current wreckage of the rouble. The specialisation forced upon them by the old Soviet command economy means that they depend very heavily on trade with each other to maintain production.

A payments union for the former Comecon block would probably need substantial western financial support. However, there have been no official discussions in the west on the issue – nor are any likely until the present constitutional and monetary muddle in the former Soviet Union begins to clear.

Walker set to unveil regrouping proposals

By Robert Peston
in London

BRENT WALKER, the troubled UK leisure and property group, is expected this week to publish its restructuring proposals, designed to rescue the business, after months of delays.

It may also announce an agreement to take control of more than 700 tenanted pubs from Allied-Lyons, the brewer.

The Allied deal will need to be approved by the Office of Fair Trading, which may be concerned that it does not follow the spirit of the government's Beer Orders, the statutory regulations introduced two years ago to reduce the brewers' stranglehold on pubs.

Brent Walker will pay nothing for the leases on the pubs, which it will add to its existing network of 1,160 houses.

The company hopes to build a network of about 3,500 pubs, which will form one of its two core businesses. The restructuring documents will say that the other core business is William Hill, the chain of betting shops.

The basis of the restructuring is conversion of £250m ($442m) of secured bank debt into ordinary shares and preference shares. However, even after the reconstruction, the group would still have more than £1bn of net debt, which is equivalent to more than three times the value of restated shareholders' funds.

Immediately after reconstruction, the banks should emerge with more than 50 per cent of the equity in Brent Walker. The percentage of equity controlled by the current holders of ordinary shares – as opposed to holders of the bonds, which are convertible – would drop from more than 30 per cent to 15 per cent.

COMPANIES AND FINANCE

Bank gives support to launch of specialist corporate rescue clinic

Help line for troubled companies

By Robert Peston

A COMPANY specialising in corporate rescues, the first of its kind in the UK, is this week being set up by some of the UK's best-known company doctors.

The new business, Postern Executive Group, is being launched with the encouragement of the Bank of England, which is concerned that there are too few company doctors with the skills necessary to prevent a financially troubled company from going into receivership.

Postern aims to provide a "one stop shop" to troubled companies. It will give advice on how to restructure and will also offer to implement a rescue plan by seconding its executives to the company's board.

In addition, Postern hopes to increase the supply of company doctors by training younger businessmen in the necessary skills.

Mr Stan Carslake, a Postern director and formerly head of Barclays' Intensive Care Unit – which deals with the bank's troubled corporate customers – said bankers are often nervous about appointing a company doctor as an alternative to putting a company into receivership. "There are so few company doctors with a track record", he said. By bringing the best known ones together, Postern is trying to "professionalise" company doctoring and win bankers' confidence in the technique.

Postern executives (from left) – Archie Coulson, Stanley Carslake and John Eliasch standing, with Trevor Swete, Sir Lewis Robertson and Ken Scobie sitting

Postern's chairman is Sir Lewis Robertson, who in the early eighties became chairman of FH Lloyd and Triplex and led their rescue. More recently, he organised the reorganisation of Lilley, the overborrowed construction concern, and is currently working on reviving hotels group Stakis.

Sir Lewis said, however, that Postern would not restrict is services to the biggest companies. It would tailor its services so that small companies could afford a company doctor. "Up to now, a small company in trouble normally had no alternative to receivership, because company doctors were in short supply and they could not afford to pay for one", he said.

Mr Ken Scobie, another founder director, is currently working on the biggest corporate rescue ever in the UK – that of the leisure group Brent Walker which has £1.5bn of debt.

However, the initiative for setting up Postern came from Mr Trevor Swete, former head of corporate finance at Hill Samuel, the merchant bank.

"Rescuing a company is a very complex process", he said. "A company doctor needs to unite a troubled company's banks, so that no one of them pulls the rug. He or she also needs enough experience to be able to stand back and establish whether the company's problems relate to its finances or its management".

Postern will be the first business of its kind in the UK. It will work either for a company's banks, its shareholders or its directors. In the first instance, it will make a preliminary analysis of a company's problems to determine whether the company is fundamentally viable.

"There is no point in trying to rescue a company which has no future", said Sir Lewis.

If Postern believes the company has a future, it will then carry out an in-depth review. At this second stage, it will need access to all parts of the company. This review will be designed to produce a strategy to save the company.

Postern will then offer to implement the strategy, by seconding members of its staff to become directors of the troubled company. It will charge the company by the hour, much as accountants and lawyers do.

"There is a big advantage for a company's creditors in appointing a company doctor rather than putting the company into administration or into receivership", said Mr Swete.

"A company doctor normally gets 100p in the pound for creditors and something for shareholders. The average return from a company in receivership is 35p and nothing for shareholders".

GM Firth chairman resigns

By Nigel Clark

MR IAN Wasserman, a former aide to Mr Jim Slater, has resigned as chairman of GM Firth (Holdings) after more than 10 years heading the Wakefield steel stockholders.

He has sold 7m shares, most of his holding, at an average price of 24½p to Mr Michael Wilkinson who is taking over as chairman and chief executive and bringing in a new management team.

Firth's shares jumped 7p to 34p on news of the changes. The company also reported an rise in interim pre-tax losses from £298,000 to £712,000.

Mr Wasserman has left the board along with Mr Cyril Kyme. Mr Wasserman will receive £282,500 compensation for terminating his five-year rolling service contract.

Mr Wilkinson paid 24p each for half the shares and 25p for the other. He will be joined on the board by Mr Howard Wilkinson, his brother, and Mr Dennis Hill, who have worked with him for many years, and Mr Geoffrey Wilkinson (no relation) and Mr David Prior, son of Lord Prior, both senior executives at British Steel in the early 1980s.

Mr Michael Wilkinson has worked in the steel and steel processing industries for the past 30 years. He said he was looking forward to being able to enhance Firth's business.

Firth's results for the six months to September 30 were again dominated by the recession and its holding in Arthur Lee, the Sheffield-based steel and plastics group.

Despite the falls in UK steel consumption, the core steel division remained in profit. The reorganisation of the furnishings, floorings and fittings side had arrested the decline in profits.

Losses per share were 1.85p (0.57p) and the interim dividend has been passed (1p). Turnover was £23.4m (£27.8m).

Yorkshire TV claims significant support for accepting new licence

By Raymond Snoddy

YORKSHIRE Television seems to have decisively beaten off a challenge from White Rose Television in the battle for the Yorkshire region television licence.

Yorkshire, which bid £37.7m a year to retain its franchise, believes it already has the support of more than 50 per cent of its shareholders for accepting the licence. The issue goes before them at an extraordinary general meeting in Leeds on Wednesday.

Pearson, publisher of the Financial Times, and WH Smith, the retail group, which together control nearly 40 per cent of the shares, will vote for acceptance of the licence. Proxy votes from institutional investors, it is believed, have been more than 99 per cent in favour.

White Rose, which passed the initial qualifying threshold but bid only £17.4m, has argued that Yorkshire's shareholders should reject the licence. They would then own a significant independent production company and would be given a free 25 per cent stake in White Rose.

The hope was that after Yorkshire's rejection the Independent Television Commission would go to the next qualified bidder – White Rose. Mr Richard Hanwell, chairman of White Rose, met both Pearson and WH Smith earlier this week and claimed that, by supporting his company, Yorkshire shareholders could save more than £200m over the 10-year franchise period. He argued that both should abstain.

Mr Clive Leach, managing director of Yorkshire, said: "WH Smith and Pearson have considered the White Rose suggestion that they abstain from voting. Both have rejected the White Rose proposal and have further confirmed they will vote in favour of Yorkshire Television's proposals to accept the licence at its EGM to be held next Wednesday."

Executives at Yorkshire are unapologetic about the size of their bid. Senior executives say they were warned that at least one of their rivals was planning a bid of over £30m. In the event Viking came up with just over £30m although it failed the quality threshold.

Yorkshire will also get a breathing space from this week's decision to reduce the special Treasury levy in the last year of its operation. The change will be worth £7m-£8m.

Yorkshire believes advertising revenue will bounce back fast from recession and it will have real growth in net advertising revenue of 9.9 per cent next year and a further real rise of 5.9 per cent in 1993.

The secret business plan submitted to the ITC envisages the separate broadcasting company staying in profit despite the £37.7m bid and making more than £5m pre-tax in 1993.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
British -Borneo Petroleum (UK)	Unit of Norsk Hydro (Norway)	Oil & gas	£57.7m	Risk diversification purchase
Barings (UK)	Dillon, Read Holding (US)	Banking	£44m	Barings taking 40% stake
Vodafone (UK)	Pacific Link Communications (HK)	Telecoms	£43.6m	Vodaphone takes 30%
ACT Group (UK)	Kindle Group (Ireland)	Computer services	£34.2m	Profit related price
Hellenic Bottling Co (Cyprus)	Coco-Cola Bottlers Ulster (UK)	Bottling	£19.3m	CCBU taking 55%
Ferd Schulze (Germany)	Medicopharma (UK)	Pharmaceuticals	£18m	Cash injection for 55%
Brent Chemicals International (UK)	Hebro (Germany)	Speciality chemicals	£10.2m	Strengthens German presence
Hogg Robinson (UK)	Dens (Belgium)	Transport	£6.8m	Complements existing operations
Nippon Life Insurance (Japan)	New England General Life (US)	Insurance	£5m	Nippon goes into shell
AMEC (UK)	Kittelberger (Germany)	Construction	£3.5m	More sector restructuring

Source: FT Mergers & Acquisitions International

N Brown buys Odhams Leisure

By John Thornhill

N Brown, the home shopping company, is expanding its direct mail interests into videos and compact discs through the acquisition of Odhams Leisure Group from the receivers for £1m.

Odhams has more than 200,000 customers and annual sales of £8m but ran into trading difficulties as a result of over-expansion.

Mr Jim Martin, Brown's managing director, said he intended to grow the business significantly by offering Odhams' products to Brown's existing customers.

As well as selling videos and CDs, Odhams runs a series of "continuity clubs" which sell knitting and health products and Postman Pat and Humpty Dumpty books. Customers join a club and are then invited to buy products from catalogues at regular intervals.

Media Holdings lifts Novo stake to 21%

Media Holdings International, a private concern controlled by Mr Elie Housman, is increasing its stake in Novo Group, the specialist media storage and distribution concern, to 21.4 per cent by the purchase of a further 16.7 per cent holding.

It is paying 125p each for 885,500 shares from Commercial and Retail Investments.

Kalamazoo sale

Kalamazoo has signed a conditional agreement that might lead to the sale of its 62 per cent interest in Live Free or Die Software, its US subsidiary which operates as Great American Software.

Price would be about $4.1m (£2.31m). The prospective purchaser is MECA Software.

Turriff Construction

Lonrho and its contracting subsidiary, Bernard Sunley & Sons, have acquired the ongoing contracts from Turriff Construction, which is in receivership.

COMPANIES AND FINANCE

Continental sells assets package to USAir for $61m

By Nikki Tait in New York

CONTINENTAL Airlines, the US carrier operating in Chapter 11, has agreed to sell a large portion of its operational assets at LaGuardia, New York's domestic airport, with six slots at Washington National airport, to USAir in a $61m deal.

Included are 62 jet arrival and departure slots; 46 commuter slots; the East End terminal, which is being built; and a flight kitchen. Some of the slots will be handed over on February 1, and the rest in May. The deal is subject to bankruptcy court approval.

Continental, which has been talking to potential merger partners, claimed these were "non-strategic" assets, which duplicated some of its hub facilities at Newark, across the Hudson River in New Jersey.

It added that most of the assets had been acquired this year in the Eastern Airlines liquidation sale, in exchange for assuming lease obligations on six Airbus A300 aircraft. Continental is retaining these.

● Northwest Airlines, the fourth largest US carrier, has invited all US domestic carriers which service Chicago to a meeting this afternoon to discuss the future of the 21 gates at Midway Airport, which Northwest bought from Midway Airlines.

Northwest acquired the gates last month, and had said it would sublet them to Midway Airlines for a year. Last week, however, the larger carrier pulled out of a second deal to buy Midway's remaining assets. This caused the regional carrier, heavily indebted and in bankruptcy proceedings, to ground its fleet and cease operations.

Northwest has attracted flak for back-tracking on the second deal – although it claims that its decision was justified by information which came to light during the "due diligence" process.

Southwest Airlines said on Thursday it had agreed to lease eight of the 21 gates.

On Friday, however, Northwest said it had invited all interested domestic airlines to a meeting today, where it would "discuss the status of the gates and solicit offers for their use".

It added: "We hope that ... we can complete the process of re-use of the gates within a matter of days".

Bank of America files merger strategy

By Alan Friedman in New York

THE BANK of America is considering divesting as much as $4bn of assets as part of its planned merger with Security Pacific Bank.

The merger, likely to be completed during the first quarter of 1992, will create the leading commercial bank in the western US. BankAmerica mentioned the possible asset disposals in a filing with the Securities and Exchange Commission (SEC).

The assets could come from both BankAmerica and Secpac, and could be transferred to a new subsidiary of BankAmerica, with stock in this subsidiary subsequently being sold.

BankAmerica also said in its SEC filing that it expected to take a $250m restructuring charge in connection with the merger. The charge would be in addition to a previously disclosed $900m reserve set aside for merger-related purposes.

In a separate SEC filing, Citicorp, the largest US bank which is troubled by large problem property loans, said loan write-off and bad debt reserves were likely to continue because of the weak US economy.

"The commercial real estate portfolio, both in the US and certain overseas markets, could deteriorate further, depending upon economic conditions and the ability to determine value in the absence of a viable market, resulting in increased write-offs and non-performing assets," Citicorp told the SEC.

Chemicals side holds Repsol to 1.8% rise

By Peter Bruce in Madrid

REPSOL, the state-controlled Spanish oil and gas conglomerate, made net profits of Pta54.9bn ($538m) in the first nine months of this year, a 1.8 per cent rise on the same period in 1990.

The group said operating profits had risen 20 per cent to Pta97.7bn. However, when calculated on a "last in first out" basis – reflecting the mere replacement cost of oil stocks – the operating result rises 33 per cent to Pta106.4bn.

Repsol, nevertheless, has once more been forced – with the rest of the industry – to report poor figures in its petrochemicals operations. Nine-month profits in Repsol Quimica fell dramatically, from Pta16.9bn to Pta2.3bn.

With Repsol pumping some Pta115.6bn – a 20 per cent increase on last year – into new investments in the period, the chemicals figures demonstrate how much the company is relying on its lucrative refining and marketing business in Spain for profit growth.

Here profits rose 48 per cent to Pta82bn, helping to obviate an extraordinary loss in the period of Pta1.9bn, which Repsol said was due to the effects of job cuts in its distribution affiliate, Campsa, and in its tanker fleet, and asset restructuring.

● Net profits at Telefonica, the Spanish telephone monopoly, rose 10.1 per cent to Pta62.1bn in the first nine months of this year, on a pre-tax profit rise of just 2.4 per cent, to Pta74.8bn.

The net rise is due mainly to a special rate of tax of 15 per cent being levied on Telefonica as compensation for its investment efforts in improving the telecommunications infrastructure around Barcelona and Seville before next year's Olympic Games and World Exposition.

The group's operating profits increased by 25.5 per cent to Pta221.4bn.

Underscoring the huge growth potential in telecommunications services in Spain's underdeveloped market, Telefonica said income in mobile services had risen 63.4 per cent, though this still represented less than 2 per cent of total income.

PWA's profit in quarter will not halt year loss

By Robert Gibbens in Montreal

PWA, parent of Canadian Airlines International, the country's second biggest carrier, performed slightly better than expected in the third quarter, but will still report a heavy loss for 1991.

Third-quarter profit was C$6.5m (US$5.8m) or 14 cents a share, against C$37.6m or C$1.19 in the period a year earlier, on operating revenues of C$820m, up 6.7 per cent. Passenger yields increased slightly despite heavy fare discounting.

But the nine-month figure was a loss of C$93m or C$2.10 a share, against profit of C$19.4m or 62 cents. A further loss is expected in the fourth quarter.

Mr Rhys Eaton, chairman, said next year should see stronger demand for air travel and a gradual improvement in PWA's results.

PWA has three Airbus 310s for sale and may sell two Boeing 767s due to be delivered next spring. It has extended a C$200m line of credit with the Royal Bank of Canada by a year to June 30 1993.

Dow Europe to buy into Czech group

By Anthony Robinson

DOW EUROPE, the European arm of the second biggest US chemicals group, is to pay $53m for 51 per cent of the Czech chemical company Chemicke Zavody Sokolov.

It will invest a further $150m to increase output of acrylic acid and speciality products in the biggest US investment in Czechoslovakia to date.

Dow has an option to increase its shareholding to 90 per cent during the next three years at a total cost of about $100m.

Remaining shares will be sold to Czech and Slovak investors through the voucher privatisation scheme and the restitution fund set up to compensate owners of property nationalised by the former Communist regime.

Sokolov is one of the most modern Czech chemicals companies.

Uni Storebrand given go-ahead

UNI Storebrand, Norway's biggest insurer, has been given the go-ahead by the country's finance industry watchdog to boost its stake in Skandia, the Swedish insurer, to 25 per cent from 18.35 per cent, writes Karen Fossli in Oslo.

Skandinaviska Enskilden Banken holds a 28.2 per cent option in Skandia. Uni has said it will attempt to acquire all or part of SE Banken's option.

Fuji Heavy returns to black at operating level

By Steven Butler in Tokyo

FUJI HEAVY Industries, the maker of Subaru cars, has cut its pre-tax losses sharply in the first half of the year, and posted a small operating profit.

The company attributed the turnround to a restructuring programme overseen by Nissan Motor, its biggest shareholder.

The turnround, which continues the trend set in the second half of last year, is more remarkable given the sluggish US and Japanese vehicle markets.

Fuji Heavy sliced its pre-tax losses from Y49.8bn ($386m) to Y2.4bn in the six months to the end of September, compared with the same period a year ago.

Sales rose 7.6 per cent to Y394.8bn, while an operating loss of Y43.4bn was turned around to a profit of Y224m.

Much of the improvement came from a cost-cutting programme which trimmed general sales and administrative expenses in the US and Japan from Y76.1bn to Y46.3bn. Net non-operating losses were also trimmed.

After-tax losses were cut from Y51.3bn to Y2.5bn.

Vehicle sales increased from Y302bn to Y326.9bn. Although sales of mini-cars in Japan fell by 27,236 units to 120,550, partly because of changes in parking regulations in Japan, sales of larger cars there rose slightly, while exports of the larger cars improved by 4,016 units to 90,383.

Although Fuji is still expecting a profit for the fiscal year, it reduced its forecast for net earnings from Y2bn to Y500m.

Fiat, Chrysler end venture

By Kevin Done, Motor Industry Correspondent

FIAT and Chrysler have ended their three-year-old joint venture in the US for the distribution of Alfa Romeo cars in the North American market.

Fiat, the Italian carmaker which includes Alfa Romeo, Lancia and Ferrari, said Chrysler had withdrawn from the venture, Alfa Romeo Distributors of North America, which would become a wholly owned subsidiary of Fiat Auto.

Fiat said it would continue with the 176-strong dealer network, of which 61 were dual dealers with the Chrysler franchise.

The company stressed that it remained committed to the US market and had no plans to withdraw the Alfa Romeo marque.

By contrast, Peugeot of France and Rover of the UK announced recently they were being forced to withdraw from the US car market in the face of heavy losses.

Chrysler said the two companies had decided to end the Alfa Romeo joint venture because it was not selling enough cars to be beneficial to both companies. The venture sold only 9,300 cars between February 1989 and the end of October 1991. "This was not part of our core business," said Chrysler.

NRI TOKYO BOND INDEX

	PERFORMANCE INDEX				
December 1983 = 100	14/11/91	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	165.40	6.05	164.73	159.18	154.98
Government Bonds	163.49	5.92	162.75	157.17	152.73
Municipal Bonds	167.74	6.27	167.03	161.04	156.76
Govt.-guaranteed Bonds	170.04	6.33	169.49	163.60	159.47
Bank Debentures	161.71	5.92	161.10	156.05	151.87
Corporate Bonds	168.43	6.66	167.55	161.30	157.70
Yen-denom. Foreign Bonds	172.63	7.14	172.40	166.73	162.17
Government 10-year†	5.99		6.05	6.41	6.59

† Estimated par yield

Source: Nomura Research Institute

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Sterling dashes interest rate hopes

NEVER mind last week's good *news on inflation, bad news on* industrial production, and surprise mini-rise in October unemployment figures.

It was sterling which mattered, and it was sterling which gave the government a copper-bottomed excuse for not cutting interest rates to give the recovery a needed boost. *Sterling provided a much better* excuse than the Bank of England's idea that a "modest recovery may have already begun", and that unemployment's rise of 15,700 in October was the smallest for a year.

Last week, the pound slipped to less than DM2.90 to fall to the bottom of the pile of currencies in the European exchange rate mechanism. On Friday, it closed at DM2.895, and it has been wobbling around *DM2.90 since August*, when its steady downward drift started.

While inflation has always been top of gilt market concerns, the currency's drift has also been much influencing activity and prices.

Friday's trading illustrated this. The release of the retail *prices index – which showed* inflation rising at a higher-than-expected 3.7 per cent annual rate in October, after 4.1 per cent in the previous month – hardly stirred the market. At another time, the *likelihood that* this level could represent the trough of UK inflation could have knocked a few points off prices. For it is to rise early next year, as the chancellor warned in his Autumn Statement this month.

More of note was the fact that sterling had less than 3 pfennigs to fall before it *touched* its lower limit of about DM2.8675 (a limit determined by the strength of the peseta) in the ERM.

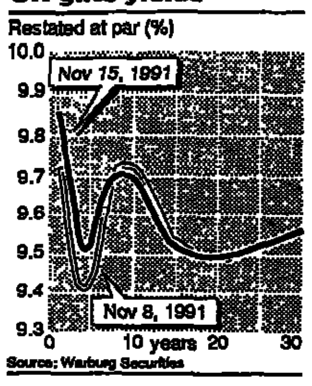
Concern has naturally attached to this weakness, given that the inflation and *production data highlighted* the extent to which the economy could do with another interest rate cut. But the way the authorities are dealing with the pound suggests that an interest rate cut will be *long in coming* – though the money markets hope for another ½ point off within the next three months.

To some extent, it is sterling's low level in the ERM that has taken the pressure off the monetary authorities to stimulate the economy, as much as hopeful signs that the recession has bottomed out.

There were uncorroborated reports last week that the Bank stepped in to support sterling when it hit the "support point" of DM2.90. But beyond that, there is little panic about the pound.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

In fact, it is thought that the Bank regards the current configuration of exchange and interest rates as satisfactory.

Sterling has been affected by the flow of funds out of dollar and yen into the D-Mark, and is not weak of its own accord, the argument runs. It would be folly to cut interest rates when the interest rate differential between the UK and Germany has narrowed to 1 percentage point, and could narrow to less than that next week should the Bundesbank decide to raise interest rates at its fortnightly meeting.

Finally, sterling's weakness adds to the pressure on the government to make the most of its next monetary loosening and sneak it in when sterling is steadier nearer the election.

These two elements – sterling's weakness and the diminishing chances of an interest rate cut soon – have buoyed the long end of the gilts market in two ways. First, it has made sterling assets very cheap. "The pound can't fall any further – it makes gilts a very good buy on the international bond market and the rally likely to continue," says *Mr Steven Hannah, of IBJ* International, the Japanese bank.

Second, the fact that interest rates have not been cut when the economy is still weak is bearing down on inflation and pushing up long gilt prices. With the continued weakness in the housing market and downward pressure on wages, the inflation outlook is very good for gilts, as the accompanying graph of the inverted yield curve continues to illustrate.

Shorter dated bonds, however, *lost ¾ point* during the week as sterling's position ruled out an interest rate cut and kept yields high.

Rachel Johnson

FINNISH BONDS

Devaluation boon expected to be fleeting

THE FINNISH bond market *rallied on Thursday when* Finland floated its currency, which had been pegged to the Ecu four months before. However, the improvement, sparked by the tumbling interest rates produced by the devaluation of the currency, will be short-lived.

According to analysts, the blow to investor confidence will undermine the Finnish bond markets in the longer term. "There will be a risk premium," said Mr Karim Basta, an analyst at Merrill Lynch, who pointed out that one rea*son bond rates were so high* – about 14 per cent – in Finland at the start of the year was the lack of confidence in the currency, partly stemming from the last devaluation in October 1982.

The mounting pressure on the Finnish markka had made *the 6 per cent band against the* Ecu increasingly hard to maintain, forcing overnight rates up to 30 per cent just before the devaluation.

Some analysts said the band had been set too high, while others argued that, once Finland had committed itself to the linkage, it should not have been abandoned, even at the cost of borrowing substantially from other central banks to support the currency.

The decision, however, was forced by political pressure. As the country sank further into *recession, fuelled* by the collapse of its largest trading partner, the Soviet Union, high domestic labour costs and an artificially supported currency made Finnish exports increasingly uncompetitive.

The bond market rallied on Thursday and Friday, pushing *the yield on the five-year bond* down about 20 basis points to about 11¼ per cent. But the real shift has been in short-term rates. The one-month rate fell from 27 per cent just before the devaluation to 16¼ per cent on Friday.

Consequently, there is a flattening of the inverted yield curve. "There will be a dramatic switch to the short end. The yield curve will not become positive, but it will flatten considerably," said Mr Mark Cliffe, chief economist at Nomura.

In addition, a heavy supply of paper is likely to depress the market, as Finland's borrowing needs increase due to the fall in government revenues caused by the recession.

The final budget agreement *has not been reached, but borrowing needs are expected to increase substantially* next year, and the government may try to avoid foreign bond markets, where the interest costs have been pushed up by the devaluation of the currency.

The Finnish government *bond market was only fully* opened to foreign investors at the start of the year. With a marked trend for convergence among European economies, many investors felt that high-yielding Finnish bonds offered an attractive convergence play. Such investors will now find any price gains more than off*set by currency losses.*

The move had little effect on the Swedish bond market, but the Swedish kronor weakened slightly, and short-term rates rose about ¼ point.

Tracy Corrigan

US MONEY AND CREDIT

Inflation scare taints week of gains

AND SO it goes on. Another week of dreadful economic statistics goes by, with bond prices being forced higher, yields lower (especially at the short end) and hopes of further interest rate cuts by the Federal Reserve being revived.

The Treasury market's gains last week, however, were not achieved without a hiccup. On *Wednesday, prices tumbled* as the market gagged on the news that the producer prices index (PPI) had risen 0.7 per cent in October.

The increase was way above expectations, and immediately *triggered fears that inflation* could rear its ugly head during the economic recovery, and force the Fed to reverse its accommodating stance on monetary policy.

Those fears already look unjustified. One month's worth of bad inflation numbers does not warrant a panic, and there were enough unusual seasonal factors in the October report to suggest that the 0.7 per cent jump would prove an aberration.

As if to confirm that the fears were unfounded, the day *after the PPI gave the market a* big fright the consumer price index (CPI) for October was released showing a negligible 0.1 per cent rise on the month. The better-than-expected CPI number allowed the bond *market to resume its upward* course, and the inflation scare was quickly forgotten in a welter of economically bearish, but bond market bullish, statistics.

Chief among these were news of *flat* October industrial production (maintaining a pattern of non-existent or weak output growth that has now run for three months), a report of a big fall in the University of Michigan's index of consumer confidence, the release of yet more poor car sales and new home sales data, and the announcement that retail sales rose a meagre 0.1 per cent last month.

If the weakness in retail, home and car sales extends into the important Christmas period, then the reluctance of consumers to spend could prove the catalyst for a return to negative economic growth in the fourth quarter, as companies reduce stocks and lay off employees in response to sluggish domestic demand.

The steep fall in share prices on Friday – the Dow fell 120 points, its fifth biggest one-day decline in history – has also brightened the outlook for bonds. If investors think the stock market is heading for a substantial correction, they might shift funds out of equities and into fixed-income products.

*****

IN the junk bond market, 1991 is proving to be a good year. The value of high-yield securities has appreciated handsomely so far, and returns on some high-yield funds have outstripped their equity market equivalents. A few well-known junk bond-laden companies – notably, RJR Nabisco – have restructured their debt and, in the process, earned higher ratings. There has also been a sharp increase in the number of corporations issuing high-yielding paper.

*Then last week, in a develop*ment that said much about demand for high-yield stock, the Californian insurance commissioner, Mr John Garamendi, unconditionally recommended that a French consortium should be allowed to take over the failed insurance company Executive Life of California (ELIC) for $3.55bn.

After a drawn-out contest between disparate groups that submitted bids for the right to acquire ELIC, Mr Garamendi plumped for the French consortium led by Altus Finance, a Crédit Lyonnais subsidiary.

Mr Garamendi chose the Altus group because it was willing to buy ELIC's huge junk bond portfolio for cash and separate it from the surviving insurance operations.

The French bought ELIC because they believed the insurer's junk portfolio would eventually be worth more than the $3.25bn they had paid for it.

It is no coincidence that one of the consortium's chief advis*ers is Mr Leon Black, a former* senior executive with Drexel Burnham Lambert, the defunct investment bank that issued most of the junk owned by ELIC.

As someone who probably knows as much about the junk bond market as anyone, it is safe to assume that Mr Black regards $3.25bn for the ELIC portfolio as a bargain.

It is worth noting, however, that Mr Garamendi did not think Altus was getting ELIC for a steal. "Talk is cheap. these bonds are expensive – $3.25bn expensive," he said.

Judging by the relatively buoyant mood of the high-yield market, however, Altus and Mr Black could prove to have made an astute acquisition.

Patrick Harverson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	4.75	4.63	4.88	11.00	[illegible]
Three-month Treasury bills	4.58	4.75	5.16	8.29	4.48
Six-month Treasury bills	4.77	4.86	5.25	7.70	4.77
Three-month prime CDs	5.05	5.00	5.43	7.17	5.00
30-day Commercial Paper	4.90	4.92	5.27	7.15	4.68
90-day Commercial Paper	4.96	4.96	5.30	7.02	4.96

US BOND PRICES AND YIELDS (%)

	Last Frd.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	100½	+½	6.94	7.07	7.21
20-year Treasury	114½	+½	7.63	7.72	7.78
30-year Treasury	102½	+¾	7.81	7.90	7.95

Source: Salomon Bros (estimates).

Money supply: In the week ended November 4, M1 rose by $0.2bn to $884.0bn.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	103¼		[illegible]
ABN 9 1/8 99	200	105¼	+¼	[illegible]
AETNA LIFE & CAS 7 3/4 16	200	100¼	-¼	[illegible]
ALBERTA PROVINCE 8 5/8 96	750	106⅛	+⅛	[illegible]
ALBERTA PROVINCE 9 3/8 95	600	108⅛	+⅛	[illegible]
AMERICAN EXPRESS 0 00	450	46⅛	+⅛	[illegible]
AMERICAN GENERAL 9 3/4 95	100	105	+⅛	[illegible]
AMERICAN INTL 0 04	750	34⅛	+⅛	[illegible]
ASIAN DEV BANK 0 04	1000	35⅛	+¼	[illegible]
AUSTRALIA 11 95	200	111		[illegible]
AUSTRALIAN WHEAT 9 1/2 93	200	105⅛	+¼	[illegible]

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

UK project deals dominate activity

TWO BIG project financings for UK groups are being prepared, providing the focal point of a busy week.

The latest wave of activity confirms the strong demand for bank finance, coming as Hanson, the UK conglomerate, confirmed the completion of its refinancing, linked to the acquisition of construction group Beazer.

The first project-related fund-raising to be put to banks is a refinancing of a $1.1bn loan to BP (Norway), arranged by J.P. Morgan. The eight-year facility replaces a loan made through BP's central treasury, which is being substituted for tax reasons.

For the first half of the eight-year facility, the margin will be ½ percentage point more than the London interbank offered rate, rising to ⅝ point for the remainder.

Whether the full facility will be available – and hence whether full commitment fees will be paid to the banks – will depend on the projections for oil revenues at BP (Norway). Fees of ¼ of a point will be paid on the available part of the facility, with a further ⅛ of a point on the unavailable part.

Also about to be launched is a £500m-plus fund-raising to build a gas-fired power station at Barking, on the banks of the River Thames. The project, undertaken by Thames Power – a consortium involving BICC of the UK and Canada's CU Power – is one of the first by an independent company since the restructuring of the UK's electricity generating industry.

Thames Power, which first gained official consent for the project 3¼ years ago, has been involved in a protracted dispute with British Gas, the privatised utility, about pricing of gas for the station.

In another first, the Indian Oil Corporation has become the first significant borrower from the subcontinent to come to the syndicated credits market since it signed a $2.3bn standby facility with the International Monetary Fund last month.

The 180-day facility, at 1.5 percentage points more than Libor, is to finance the purchase of crude oil and petroleum products, mostly from BP. It follows a similar 180-day facility agreed earlier in the year.

Borrowers from another country – Italy – also appear to have come back into favour. Banks may not yet have forgotten the Federconsorzi affair, but they are now apparently willing to welcome back other Italian borrowers. Two state-controlled entities have been brought to the international market this week. Banca Commerciale Italiana is raising $138.5m for Instituto di Credito Fondiario delle Venezie. The seven-year term loan is brought at a margin of 55 basis points more than Libor. In the second, Banca di Roma is bringing a L75bn, seven-year loan for Iselmer. The margin in the first two years is 42.5 basis points, rising to 50 for the rest of the period.

Meanwhile, further large transactions are expected. Bankers are understood to be poring over a restructuring of part or all of the debts of the troubled Groupe Bull, the French state-owned computer group. BNP, Société Générale, National Westminster and J.P. Morgan are understood to be preparing a refinancing, although it is unclear whether this will cover the group's entire debts or only those from its US/UK operation. Bull HN.

All eyes are on the French government. In the words of one banker not involved in the refinancing: "It all depends on the willingness of the lenders – and that depends on the state's willingness to recapitalise the company."

Richard Waters

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	944.5	70.0	0.0	11,978.7
Prev	2,953.6	0.0	50.0	11,482.5
Other	2,712.8	6.8	0.0	10,551.5
Prev	2,192.5	0.0	155.1	18,393.9

Secondary Market

US$	19,411.5	732.6	5,536.9	8,451.4
Prev	29,723.5	1,366.8	8,203.7	9,907.4
Other	34,052.1	658.4	3,914.1	76,497.7
Prev	48,890.6	753.5	4,924.7	95,726.3

	Cedel	Euroclear	Total
US$	15,994.1	31,129.5	47,123.6
Prev	22,161.5	42,025.0	64,186.5
Other	47,786.9	80,606.5	128,393.4
Prev	58,634.5	104,402.1	163,036.6

Week to November 14, 1991. Source: AIBD

INTERNATIONAL BONDS

Ecu quiet as market awaits single currency decision

THE ECU bond market is paralysed as it awaits the Maastricht summit in December, at which the future of the fledgling single European currency will be decided.

There has been one straight Ecu bond issue recently, a small Ecu175m offering by the City of Stockholm at the end of October.

In the secondary market, bond prices first rose on hopes that the Ecu would be "hardened", leading to a one-off rise in Ecu bond prices. They then fell back as a "freezing" of the current Ecu basket appeared a more likely outcome. Such volatility has now been replaced by an eerie calm.

While many in the bond market are pre-occupied with the short-term impact of a hardening or freezing, policy-makers are more concerned with the level of government borrowing by EC states, and how this will be affected by the future shape of the Ecu.

For example, the Bundesbank has argued that anything other than a hard Ecu will encourage governments to borrow more from the capital markets. This could push up interest rates throughout the EC, just as a lot of borrowing by the German government is contributing to high interest rates elsewhere in Europe.

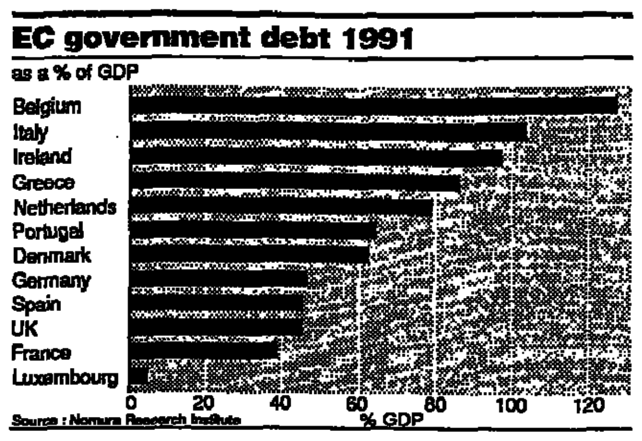
There are two main proposals for the Ecu before the conference participants at Maastricht:

● German proposals for a "hard basket" currency, the only plan which requires significant change to the Ecu as it stands.

The Bundesbank has proposed that the amounts of weak currencies in the Ecu basket should be reduced as they depreciate. This would prevent the weaker currencies from dragging the Ecu down on the foreign exchange markets. It suggests that the Ecu should never be allowed to devalue against any of its constituent currencies.

Hence, the Ecu would become as "hard" as the hardest currency in the basket, probably the D-Mark. Over time, the amount of the D-Mark in the Ecu basket would increase.

Some investors bought Ecu bonds in the hope that the German proposals would be accepted, because the Ecu would become something like a proxy D-Mark. Ecu bond yields should fall to the level of D-Mark bond yields.



With 10-year Ecu yields at about 9 per cent, and 10-year German government bond yields at about 8 per cent, this would give holders of Ecu bonds a one-off capital gain. Ecu bond prices would rise as yields fell to German levels.

For big *issuers* of Ecu bonds, however, this would entail a one-off cost. For the French and Italian governments, for example, it would mean a one-off transfer of wealth from taxpayers to bondholders. For a country such as France, which funds 15 per cent of its budget deficit in Ecu, this is a serious consideration.

In the long term, bond market participants question whether governments would want to borrow in Ecu at all if it was the hardest currency in the EC. In theory, the hardness of the currency should be reflected in Ecu interest rates being the lowest. However, analysts say that a hard Ecu would still be a less attractive currency for large, long-term borrowers such as governments.

● Plans backed by the Dutch and other governments for a freezing of the Ecu in its current form.

The Bundesbank has objected to a "freezing" of the Ecu on the grounds that the currency would remain soft, or vulnerable to depreciation. It has said that a "soft" Ecu could encourage high-borrowing governments to borrow more.

The argument is that if the Ecu devalues, any debt denominated in Ecu loses worth, making it less expensive to repay than "hard currency" alternatives. In contrast, debt denominated in a hard currency will not devalue.

Analysts argue that this line of argument does not take account of the changes in the European economies in the late 1980s. The Ecu is no longer an unstable basket, half composed of weak and depreciating currencies.

For example, inflation has been dramatically reduced in many usually high-inflation economies. Hence currencies such as the Italian lira and Spanish peseta have been stable within the exchange rate mechanism.

There has been little pressure for a re-composition of the Ecu basket since this operation was last carried out in February 1987.

Since that event, the D-Mark has appreciated against the Ecu by 0.5 per cent. Against external currencies such as the dollar and yen, the Ecu has shadowed D-Mark exchange rates.

Moreover, Dutch proposals for a frozen Ecu include measures to control government borrowing. Annual budget deficits in each member state would have to be less than 3 per cent of gross national product. Total outstanding government debt should not exceed 60 per cent of GDP.

However, while many doubt the Bundesbank's argument against a freezing of the Ecu basket, most economists agree the German central bank is right to be concerned about the amount of government borrowing in the capital markets of Europe.

Belgium and Italy have outstanding debts equivalent to more than 100 per cent of GDP. The Italian, Dutch, Belgian and – ironically – German governments would also fail the 3 per cent annual deficit test this year.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Kingdom of Norway†	1bn	1996	5	7	99½	Deutsche Bk Cap.Mkts	7.121
Bariven SA†	230	1996	5	9½	100.245	Bankers Trust Int.	9.437
Asian Development Bk(i)†	300	1998	7	7½	99.60	Lehman Brothers	7.575
Republic of Argentina†	200	1993	2	9½	99.78	CSFB	9.624
Goldman Sachs Gp.LP(n)†	200	1994	3	7	101	Goldman Sachs	6.627
STERLING							
United Mexican States†	100	1998	7	12¼	100.417	Samuel Montagu	12.160
National Power(j)†	200	2001	10	10⅝	101.28	CSFB	10.401
Abbey Nat.Sterling Cap.(k)†	150	2017	26	11½	101.715	Baring Bros.	11.293
CANADIAN DOLLARS							
Bayerische Hypobank(l)†	100	1995	4	8½	101¼	Hambros Bank	8.128
FRENCH FRANCS							
France Telecom†	2.5bn	1999	8	9	99.39	CCF	9.109
AUSTRALIAN DOLLARS							
Victorian Pub.Auth.Fin.†	200	2011	19⅔	zero	13¼	Fay, Richwhite (UK)	10.517
Victoria Pub.Auth.Fin.†	100	2001	10	10½	101.55	Hambros Bank	10.249
D-MARKS							
Chuo Woollen Mills(a)#†	30	1995	4	5⅛	100	Dresdner Bank	5.125
Bay'ische Land'bk.Int.†	400	1998	7	8⅜	101½	Bayerische Land'bk.	8.090
SWISS FRANCS							
Kobayashi Metals(h)★★#†	40	1995	-	4½	100	Wirtschafts & Privatbk.	4.500
Thai Petro.(Cay.Is.)(b)★★§	25	1998	-	(4½)	100	DG Bank (Suisse)	-
Nippon Seiki(c)★★‡†	23	1996	-	(c)	101⅜	Mitsubishi Bk (Switz)	-
Toko Shoji★★†	11	1996	-	7¾	100	Banca del Gottardo	7.750
Yotai Refractories(e)★★♦	30	1995	-	4½	100	Nomura Bk (Switz)	4.500
Credit Local de France(k)†	75	2001	-	7¼	102	Bque.Paribas (Suisse)	6.969
Rasa Industries★★§	50	1996	-	5⅞	100	Daiwa (Switz)	5.872
YEN							
Republic of Finland†	50bn	2002	10.167	6	99.83	Daiwa Europe	6.021
Chubu Electric Power†	60bn	2001	10	6⅛	99.30	Daiwa Europe	6.220
KFW Int.Finance Inc.†	50bn	1999	8	6	100	Nomura Int.	6.000
IBM Japan†	25bn	1996	5	6⅛	99.65	Nomura Int.	6.207
Tokyu USA Inc.†	10bn	1996	5	6.45	101½	Yamaichi Int.	6.097
Asfinag†	30bn	2000	8¼	6	99.83	Nomura Int.	6.025
National Bk of Hungary(m)†	30bn	2001	10	8	100.60	Daiwa Secs.	8.069
Daiei Inc.†	30bn	2000	8¼	6⅜	101⅜	Nomura Int.	6.158
Daiei Inc.†	20bn	2002	10¼	6.4	101½	Daiwa Europe	6.198
GUILDERS							
Bank Mees & Hope†	200	2001	10	9	101.40	Bank Mees & Hope	8.787
NV DSM†	300	1999		9	100.40	Rabobank Nederland	8.922
LUXEMBOURG FRANCS							
Banco di Roma (Cay.Is.)★★†	600	1995	3.167	9⅜	102.10	BIL	8.595
Credito Romagnolo★★†	1bn	1995	3⅔	9⅜	101.95	BGL	8.848
Is.Bco.S'Paolo(d)†	600	1998	7	9⅜	102.15	BGL	8.955
BBL Int.NV†	2.25bn	1999	8	zero	51	Credit Europeen	8.596
Tractebel Invest Int.(f)†	500	1998	7	9⅛	101⅞	BCEE	8.761
Tractebel Invest Int.(g)♦	500	1998	7	4	102.60	BCEE	3.577
Lonrho Finance†	1bn	1996	5	9⅝	102.05	KBL	9.106

★★Private placement. §Convertible. #With equity warrants. ‡Floating rate note. ♦Variable rate notes. †Final terms. a) Exercise premium fixed at 2.64%. Non-callable. b) Put option after 5 years to yield 7½%-8%. c) Coupon pays 37.5bp over 6-month Libor. Non-callable. d) Fungible with existing LFr1bn deal. Subordinated bond launched on a fiduciary basis by BGL. Non-callable. e) Callable 29/11/93 at 102% declining ½% semi-annually. f) Callable 1996 at 100¾% and 1997 at 100½%. g) Issue has an American option call on the Brussels share market's Bel-20 index. Exercisable for 4 years. h) Exercise premium fixed at 2.52%. Callable 4/12/93 at 101% declining ¼% semi-annually. i) Dragon issue. Non-callable. j) Event risk put option at par, should changes to the issuer's operating licence materially affect position of bond holders. k) Subordinated issue. Non-callable. l) Full name of borrower - Bayerische Hypotheken & Wechsel-Bank AG. Non-callable. m) Samurai issue. Coupon payable semi-annually. Non-callable. n) Selling concession fee - 1⅜%. Non- callable. Note. Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

CANADA

INDICES

TOKYO - Most Active Stocks

Friday, 15 November 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toyo Ink	13.6	780	+68	Clarion	3.6	1,440	+50
Kurabo Inds	6.1	980	+20	Nippon Steel	3.4	378	-9
Hitachi	5.8	938	+2	NKH Spring	3.2	685	+40
Japan Storage	4.5	1,200	+10	NKK	3.1	380	-7
Okamoto	4.5	930	+55	Nippon Carbon	2.7	2,670	+200

FINANCIAL TIMES SURVEY

INTERNATIONAL MERGERS & ACQUISITIONS

Monday November 18 1991

The international squeeze on banks' capital, the fall of the junk bond market and the US and UK recessions cast a long shadow and help explain why the mega-bids of the boom years are few and far between. But Europe's corporate restructuring is still under way, providing a steady stream of activity, writes **Richard Waters**

Four hints of recovery

THE TAKEOVER business is not what it was. Merger or acquisition activity across borders is down by more than half so far this year, having already fallen sharply last year. A highly cyclical activity, M&A is passing through one of its periodic lulls.

That, at least, is true of the business in its most visible form, that of the contested public mega-bid which became familiar to the financial world in the late 1980s. In the less visible world of agreed mergers, many of them between private companies, deals continue to be done, though at a slower rate. The market for corporate assets continues to play an important part in the shaping of the international corporate map, regardless of the wilder vagaries of financial fashion.

The lull in mega-bids is illustrated by the 60 per cent fall in the value of cross-border deals in the first nine months of this year recorded by the accounting group KPMG. The $35bn was around $50bn down on the same period of 1990.

By comparison, the number of recorded cross-border deals, at 1,337, fell by a less dramatic 37 per cent, indicating the general reduction in the size of deals being done.

The figures tend to lag behind the market. It takes time for takeover plans to crystallise, and longer still to agree a price at which shareholders of target companies are prepared to sell. The ending of the Gulf War may have brought an immediate bounce in equities markets, but is taking somewhat longer to feed through into the statistics which show activity in the market for corporate assets.

There have been some hints of a recovery in the UK, if not the US (traditionally the two most active takeover markets). The sight of familiar acquirers returning to the market this summer – Hanson, BTR and Williams Holdings – even suggested for a while that it might be back to business as usual.

However, other aggressive bids have not followed, and the progress of one corporate transaction above all else has illustrated how much things have changed: Hanson's acquisition of a stake in ICI.

The stalking of major industrial companies may have been a common sport in the late 1980s, but Hanson's move provoked a political backlash. The well-publicised irritation of Lord Hanson with his public relations advisers over the response to his ICI stake perhaps disguises a failure on his own part to discern this change in mood.

Meanwhile, there are many more tangible explanations why mergers and acquisitions in the Anglo-Saxon countries have not recovered their previous popularity. Foremost among these is the availability of finance.

The US M&A market of the 1980s was driven by debt, with two pools of cash put at the disposal of acquirers. One was created by the market in below-investment grade (or junk) bonds, while the other was made available by bankers who were prepared to use their balance sheets to back the highly-leveraged takeovers from which they subsequently earned enormous fees.

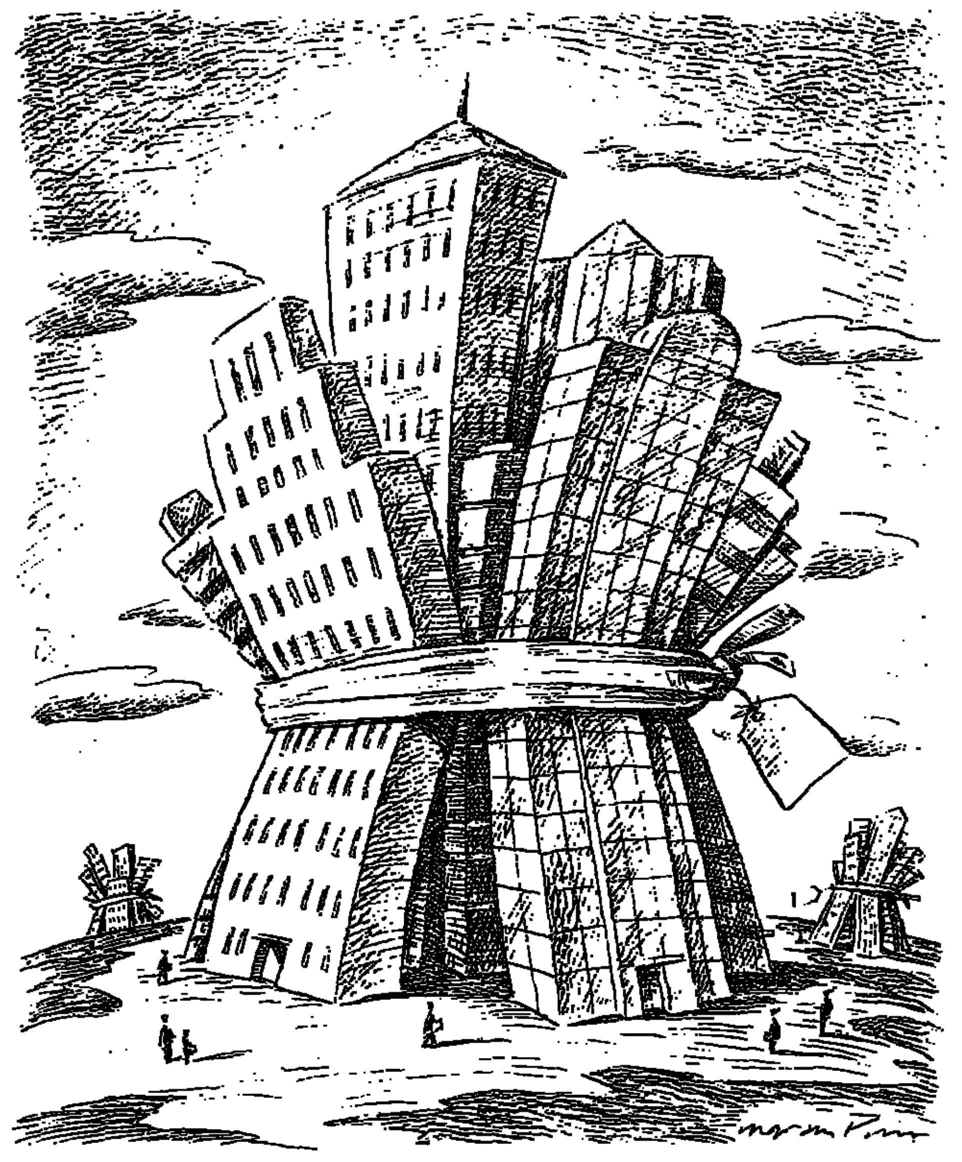
Both sources of cash have largely dried up. While the junk bond fell with its founder, Mr Michael Milken, banks have retreated in the face of recession and tighter rules on capital adequacy.

Financiers claim, however, that while the supply of cash no longer drives takeovers, the scarcity of it has not prevented deals being done.

One big difference now is that acquirers have to make a stronger case for the commercial logic of what they plan to do. Another is that, whereas banks were once happy to ply upstart companies with cash, those without a track record now find it difficult to raise money: recession-scarred banks have become more alert to credit risk, and public bond markets (the one ready source of money this year) are open only to top-grade borrowers.

While developments on the financing side have had the most marked effects on the market for corporate control, other factors have also been relevant – most notably the decline in business confidence due first to the Gulf crisis and second to the recessions in the US and UK.

These factors may have combined generally to depress the M&A business, they have not killed it off altogether – and investment bankers retain their perennial optimism that the next wave of deals is just around the corner, would chief executives but realise the strategic sense in growth through merger.



The merger mania of the late 1980s is unlikely to return for a good while to come. But for at least four reasons, activity is likely to pick up in the months ahead.

■ First, the recession has also brought with it opportunities for acquirers to pick up distressed assets on the cheap, as troubled corporations have battened down the hatches by shedding non-core areas of their business, or as conglomerates created by acquisition during the 1980s have fallen apart under the weight of excessive debt.

In practice, however, there are fewer bargains than there might be in a recession: equity markets have surged ahead this year in the expectation of an upturn, even though corporate earnings remain under pressure.

■ Second, the wave of privatisations across the world is throwing up buying opportunities, as once state-owned corporations in markets which were previously closed find themselves the targets of attention from international corporations. Eastern Europe will provide the most obvious supply of such opportunities in the years ahead.

■ Third, globalisation (a buzz word from the mid-1980s) is gaining a new lease of life, though it is generally referred to now more modestly as "geographical diversification".

Whereas it was once fashionable to diversify a company's lines of business, theoretically to give it a more balanced cashflow when one part of its activities hit a cyclical downturn, the fashion now is for expansion across frontiers within a company's core business. Economies of scale, real or imagined, are driving many cross-border deals.

This is particularly true in Europe, where fragmented national market places are being reshaped by the European Commission's single market programme. At the same time, European companies involved in international industries, from pharmaceuticals to aircraft, have engaged in acquisitions to reposition themselves on the world stage.

Europe may have proved most resilient to the downturn in M&A business, although even here merger activity has dwindled noticeably. The value of transactions completed was down around a quarter, at $9.6bn, in the first nine months, according to KPMG. By comparison with the first part of 1989, though, transaction values had fallen by more than a half.

■ Fourth, deregulation is reaching industries which were previously protected, forcing consolidation between market participants. This is most notable in the financial services world, which has also faced a particularly severe recession after the go-ahead days of the 1980s.

Faced with such changes, takeover advisers like to talk of the emerging international market for corporate control. According to one leading adviser in Europe, that market comprises around 500 chief executives around the world: if any substantial business is for sale, one or more of these people will be interested buyers, he says.

That may be the future. In practice, though, this is still a fragmented market.

Information is often scarce and valuation methods sometimes differ markedly. Many companies that are for sale never appear in the international marketplace: they are sold privately to local trade buyers.

Specialist advisers are estimated to be used in only around 30 per cent of large transactions in continental Europe, suggesting that in many of the other 70 per cent of cases, companies are sold without first having been hawked around all the potential buyers around the world. In addition, few M&A advisers have a truly international reach.

Further significant inefficiencies in the international market for corporate control are caused by the activities of politicians and anti-trust regulators, as a result of which there is seldom a level playing field on which international takeovers take place.

Moreover, differences in capital structure and the regulations surrounding the conduct of M&A activity mean that the mechanics of takeovers work differently in different countries.

Such inefficiencies create problems. However, they also throw up the opportunities on which ambitious chief executives thrive, and help to ensure that takeovers will not follow junk bonds into the dustbin of discarded financial techniques.

IN THIS SURVEY

INTERNATIONAL MERGERS AND ACQUISITIONS 2

Barry Riley looks at the EC's regulatory moves

Directive attacked

NOWHERE ARE are the clashes of financial culture within the European Community more obvious than in the field of mergers and acquisitions. Efforts to develop a level playing field are running into a lot of trouble.

Recent symptoms of the regulatory malaise include:

- a fierce argument over the decision last month by the EC's merger task force to ban a proposed takeover by Aerospatiale of France and Alenia of Italy of de Havilland, a Canadian offshoot of the giant US aircraft-maker Boeing;
- a forced retreat by the UK government from its position that it sought to use the British anti-monopoly machinery to scrutinise the takeover of British companies by state-owned organisations elsewhere in Europe;
- continued hostility by Britain to the draft directive intended to lead to harmonisation of takeover practices throughout the Community.

Britain is in the forefront of many of these arguments because it has experienced far more M&A activity over the years than has been common elsewhere in Europe. Many of these deals have been carried out through the stock market, often involving approaches to shareholders against the wishes of the directors of the companies being bid for, so it has become necessary for the UK to develop an elaborate Takeover Code.

This has been fine-tuned over more than 20 years, and is intended to ensure as far as possible that all shareholders – right down to the smallest – get fair treatment. There are complex rules, for instance, about disclosures of shareholdings, trigger points for compulsory bids, and the circumstances in which offers can be raised or otherwise changed.

This would be relatively easy for the rest of the EC to digest but for the snag that the Takeover Code is not actually enshrined in statute, although in practice it has been sympathetically respected by the British courts.

The aim has been to keep regulation out of the courts as much as possible, and to concentrate the main responsibility within a self-regulatory body, the Takeover Panel. The panel relies on the good behaviour and co-operation of M&A practitioners in the UK, although sanctions can be applied by peer groups should it prove necessary. Rogue operators can be cold-shouldered by the City of London.

Elsewhere in Europe, contested takeover bids are rare (although not unknown, even in Germany, where the tyre company Continental came under hostile pressure from Pirelli of Italy last year). So there is comparatively little legislation in place to control tactics in takeovers.

In one sense, establishing legislation throughout the EC would improve matters as far as the UK was concerned, because aggressive takeovers would become more practical throughout the Community. British companies would therefore no longer be uniquely vulnerable to the threat of takeovers, while being blocked from making their own moves on the Continent.

But the UK's Takeover Panel has expressed great reservations about the directive. It is worried that if detailed rules were applied it would become impossible to operate the code in the UK on a self-regulatory basis, and courtroom battles would become more typical (as they are in the US, for instance). In the circumstances the takeover directive is making little progress.

There is, however, another dimension to the regulation of takeovers. This is not concerned with the treatment of shareholders but with the industrial effects of mergers, with reference to competition.

Some EC member states, notably Germany and the UK, have well-developed mechanisms of a largely independent, non-party political nature for examining merger proposals from the public interest standpoint. In other states this does not apply, or perhaps there are *ad hoc* arrangements for considering deals within an interventionist framework.

Whatever the particular local practices, all the EC member states have had to come to terms with the ever-increasing integration of the European market place, culminating in the single market of 1993 (although in practice a single market has already been achieved in many manufacturing sectors).

It has therefore become necessary to assess monopoly situations on the basis of the European market as a whole rather than just the position within a single national economy. Some people argue, in fact, that Europe must think in terms of the development of small numbers of major companies that can hold their own in the global market place.

Accordingly, in September last year new merger regulations came into operation and a task force under the Brussels commissioner Sir Leon Brittan began routine investigations at the beginning of 1991. It has approved a number of takeovers including Tetra Pak's acquisition of Alfa-Laval and Fiat's purchase of French battery interests (though only on condition that the Italian group sold a stake in another French battery maker).

Many of these decisions were relatively uncontroversial but the arguments recently became much more heated when the task force decided to dig in its heels over de Havilland. The dispute has served to define the divisions within the Community, with the more *dirigiste* French and Italians tending to argue that the EC must be prepared to build up strong industrial giants capable of competing on the world stage – in this case manufacturing "commuter" airliners with between 40 and 70 seats – while representatives from Britain, Germany and the Netherlands are more inclined to worry about competition within the Community.

In fact, the de Havilland affair has led to a dispute between Mr Martin Bangemann, the EC industry commissioner, and Sir Leon's department. Mr Bangemann thinks that the deal should have been allowed to go ahead.

There is a conflict here between countries which are used to state-led monopolies and others which have more of a *laissez-faire* approach to industrial strategy. This is bound to continue for many years, until the EC is more politically and culturally harmonised.

In the meantime, the British government has had to retreat from its position over Monopolies Commission references for takeovers of British companies by foreign state-owned enterprises. The British government has, of course, been privatising large sectors of the economy and it has felt these efforts would be undermined if foreign state-owned companies could come in instead. Takeovers by aggressive French nationalised companies have proved especially irritating to the British.

Britain seems to have climbed down under pressure from Brussels, but the fact is that the Monopolies Commission was in any case the wrong instrument with which to tackle an essentially political rather than industrial issue.

International bids: January-September 1991

	Adviser* (final 1990 position)	Value of bids	Number		Adviser† (final 1990 position)	Value of bids	Number
1.	Goldman Sachs (1)	$17,624m	31	1	Lazard Group (-)	$16,243m	32
2.	S. G. Warburg (	$17,248m	31	2.	CS First Boston(4)	$14,347m	38
3.	Lazard Group (-)	$15,624m	27	3.	S. G. Warburg (10)	$14,043m	39
4.	CS First Boston (5)	$13,661m	36	4.	Goldman Sachs (1)	$14,021m	35
5.	Schroder Wagg (3)	$12,791m	34	5.	Merrill Lynch (5)	$13,777m	25
6.	Merrill Lynch (4)	$11,491m	17	6.	Schroder Wagg (3)	$10,521m	40
7.	Morgan Stanley (2)	$ 8,841m	24	7.	Morgan Stanley (2)	$ 9,644m	28
8.	Morgan Grenfell (12)	$ 4,229m	21	8.	J. P. Morgan (6)	$ 5,288m	42
9.	Lehman Bros Intl (8)	$ 4,062m	13	9.	Lehman Bros Intl (8)	$ 4,634m	20
10.	*Barclays de Zoete Wedd (13)*	*$ 3,810m*	*13*	10.	*Barclays de Zoete Wedd (14)*	*$ 3,810m*	*14*
11.	J. P. Morgan (6)	$ 3,477m	30	11.	Baring Brothers (9)	$ 3,548m	22
12.	Baring Bros (10)	$ 2,885m	14	12.	Morgan Grenfell (12)	$ 3,029m	27
13.	Chase Manhattan (-)	$ 2,736m	19	13.	Chase Manhattan (-)	$ 2,737m	20
14.	Bankers Trust (-)	$ 1,350m	1	14.	Paribas (-)	$ 2,102m	23
15.	N. M. Rothschild (-)	$ 1,167m	20	15.	Bankers Trust (-)	$ 1,600m	4

*Full value given to named banks †Adjusted for joint advisers, where the deal is divided equally between them. Source: FT Mergers + Acquisitions International

MARKET TRENDS

Bigger, fewer deals

GLOBALISATION; strategy-driven deals; refocusing; privatisation; industry restructuring.

These words and phrases pepper the conversation of international investment bankers. Agreeing almost to a man that the international mergers and acquisitions market has been quieter in 1991 than in previous years, many insist they can see light at the end of the tunnel. There is virtual unanimity too that when recovery comes, there will be no return to the "lunatic" levels of the 1980s.

The Gulf War, higher real interest rates and general economic uncertainty are widely blamed for the decline in activity this year. Anecdotal evidence appears to bear out the pessimists, who claim deal volume is down by between 40-60 per cent year on year.

The merchant bank league tables produced by FT Mergers + Acquisitions International for the nine months to end-September introduce a note of ambiguity into the debate, however. While not intended to be a precise measure of bid activity, the tables by their very nature reflect general trends. Goldman Sachs is top of the international table, with credit for 31 bids worth a total of $17.6bn, compared with the 66 bids worth $16.3bn claimed by Schroder Wagg when it led at the same stage last year.

This pattern of fewer deals but a higher overall value is a feature of the table, suggesting that for banks with genuine cross-border vision and capabilities there are still a few large transactions around worth advising on. The US investment banks in particular seem to agree that M&A today is a cross-border business, especially in Europe.

While the UK domestic market has probably been hit harder than most, the rest of the world has not escaped unscathed. Mr John Nelson, vice-chairman of Lazard Brothers, cites a number of factors, some less familiar than others: recession in the UK and the US; lower economic confidence in continental Europe; Germany looking east rather than west; the Gulf War; high real interest rates and a banking system which is less liquid than for some years.

Mitigating forces in the other direction include the discounting of recovery by equity markets, which itself fuels M&A activity by making some corporates suddenly look attractive enough to launch paper bids.

"I think the level of activity will increase," says Mr Nelson. "Some will say it already has – but it will not reach in the foreseeable future the levels of the late 1980s when M&A got so grossly overheated. People are more cautious now."

Mr Bob Dowsett, a director of corporate finance at Morgan Grenfell, agrees that the overall picture in volume terms is one of very sharp decline, thanks to the economic background and the downward pressure on profits. But further expansion and concentration in the EC are likely, he feels. "Everybody wants to get 1992 half right."

Mr Stephen Hester, co-head of European M&A at CS First Boston, argues that most of the drop in volume is a normal cyclical trend which will naturally reverse itself, and "there are signs emerging that this is happening". Privatisation is among the most fundamental M&A trends from the Urals to the Andes, identified by Mr Hester and Mr Francois von Hurter. "It's not just central and eastern Europe," says Mr von Hurter, co-head of European M&A. "The Swedes, French, Greeks and Latin Americans will all be fuelling M&A activity in this way."

CSFB and its peers also see globalisation of existing businesses or the exiting by companies from lines where they are sub-scale on a global business as a major trend.

The strength and depth of the recession have surprised many people and accelerated the distress sales programmes seen throughout the year, driven by the need to reduce debt incurred to make the purchases in the first place.

Mr Rod Peacock, head of J P Morgan's European M&A execution group, which says it is enjoying a "comfortable year", feels that industrial dynamics are changing in Europe and not just because of 1992. "Europe is becoming a place where people are prepared to compete on a continent-wide basis. Companies have to make choices: buy market share, sell out or risk expensive decline."

While the Gulf war and high interest rates are convenient scapegoats, some bankers downplay their significance. "They were contributory factors to the economic climate that hit buyers," says Mr Lars McBride, head of European M&A at Chase Manhattan, "but the signs of the dearth of activity were there before the Gulf war. The pressure on the banking system would have had its effect without it."

M&A will come back, he says, but it will be a different game. "The froth won't be there. This is a different market from the 1980s and it will remain a different market."

On internationalisation and refocusing, Mr Ali Wambold, chief executive of the London arm of New York's Lazard Frères, feels European companies may be behind their US counterparts who started the 1980s diversified, and ended them refocused on core activities. This leaves them free to globalise in the 1990s. "Europeans will have to do two decades of work in one," he concludes.

Brian Bollen

Tracy Corrigan explains the decline of activity

Banks get tougher

JUST as the surge in takeover volume in the 1980s was facilitated by financing opportunities, particularly in the US through the junk bond market, so the dearth of activity in the last few years can be partly attributed to the tightening of funding conditions internationally.

The banks which engineered the takeovers of the 1980s are themselves suffering from the after-effects. Higher loan default rates are draining bank capital, at a time when stringent new standards on bank capital adequacy are coming into force and compelling banks to re-examine their lending criteria. The first to go were so-called highly-leveraged transactions, which demand a larger portion of capital to be set aside and are much riskier.

In some countries, such as Germany, the strong links between banks and industry have insulated companies from the effects of tougher conditions. Elsewhere, there has been some pressure on companies to adopt a more conservative stance. "One of the themes of the year has been the strengthening of balance sheets and replacement of bank debt with longer-term debt," says Mr Jon Aisbitt, managing director in corporate finance at Goldman Sachs International. Consequently, companies are more wary about taking on debt to acquire new businesses.

Some traditional forms of bank financing are viewed less enthusiastically, after painful experiences by UK corporates. "The easy availability of bank lines has disappeared. The last few years have shown companies cannot rely on apparently cheap sources of money," says Mr Aisbitt.

Companies are more willing to pay for secure longer-term funding, even though the costs can be high. Bank loans have generally become much more expensive, due to the squeeze on capital. Not only are banks demanding higher margins, they are also charging higher management fees for arranging syndicated loans, and are more likely to insist on senior debt backed by stronger covenants and, if possible, well-padded by assets.

However, large, solid companies can still raise substantial sums in the market. Hanson, the UK conglomerate, has just raised £3bn of bank debt in Europe and $4bn in the US.

Meanwhile, the international bond markets have become two-tier, with sovereign and supranational borrowers able to command aggressive rates, while companies have to pay wider spreads due to a perceived worsening in credit quality. In Europe, unlike the US, there is not a fully-fledged corporate bond market. Although corporate access to the Eurobond market has improved in the last year, the markets are in most cases closed to any name with less than a single-A credit rating.

One of the main beneficiaries of problems in other sectors has been the convertible bond market, which has bounced back to life in the last year or so. It is now able to absorb increasingly large transactions, as the investor base spreads. Further, because convertible bonds have an equity as well as a debt component, companies with rather weaker credits can tap the market. Investors have some downside protection against the equity market, because they earn interest.

The market has proved quite innovative. In May, Elf Aquitaine funded from scratch a joint venture with Enterprise Oil to buy Occidental's UK oil and gas assets by raising £430m through an issue of exchangeable bonds.

Companies have started to look further afield for funding, as they have become more aware of the need to establish a broader investor base, in order to ensure that they do not have too concentrated a portion of bank debt.

"More and more companies are looking at cross-border solutions," says Mr John Hepburn, co-head of corporate finance at Morgan Stanley International.

Thus, Sweden's Wallenberg Group, which bought Saab-Scania during a recent restructuring arranged by Morgan Stanley, raised Skr6bn through a convertible bond issue distributed throughout Europe. And the group has just completed a $540m 15-year private placement in the US.

The US market has become particularly attractive to European investors as US interest rates have tumbled. In addition, there is substantial unsatisfied appetite for attractively priced corporate debt, due to the void left by the fall of the junk bond market.

The US market, especially the private placement market, also allows European companies to fulfil another of their objectives: to extend the maturity profile of their debt. Insurance companies, particularly in the US but also in Europe, are prepared to buy long-dated assets to match their long-term liabilities, for more generous spreads than are available in public markets.

"There is no doubt that the banks are asking for their umbrellas back and the wise corporate treasurer is securing long-term financing," says Mr Piers von Simson, director of corporate finance at Warburg.

The buoyancy of bond markets this year has allowed some companies to extend the maturity profile of their debt. For example, Guinness, the UK drinks company, has raised a total of £770m in the bond market this year. Acquisitions, including Spain's largest brewer, Cruz del Campo, for £450m in January, were funded initially by bank debt, but the company has subsequently refinanced substantial portions of this in the bond market.

Given the vogue for corporate restructuring, it is becoming more common to sell off assets to finance takeovers. For example, Lasmo, the UK oil company, is trying to sell a package of US assets to fund its acquisition of Ultramar.

Multi-option facilities, which were often used to finance acquisitions during their vogue in the mid-1980s, are coming up for refinancing.

Although financing constraints have raised the costs of funds, and economic recession is reining back many companies' expansion plans, the availability of finance for solid companies, has not been an insuperable problem. Apart from LBO-style raiders, who are mostly out of the business now, "I cannot think of one deal which did not get done because of lack of finance," says Mr Hepburn.

INTERNATIONAL MERGERS AND ACQUISITIONS 3

EASTERN EUROPE

Buyers and sellers learn a lot

THE OPENING up of east and central Europe for business has provided an unrepeatable opportunity for western companies to buy assets, make strategic investments, open new markets and acquire low-cost production facilities on the doorstep of the European Community.

Two years ago, the entire region was *terra incognita* to all but a handful of specialist traders and those companies which took a long-term view and patiently built-up contacts in the former state-controlled foreign trading monopolies and developed relatively small but steady market shares.

Since then, knowledge of the area has grown exponentially as an army of accountants, bankers, valuers, lawyers and company analysts of all stripes has set up shop in the newly-accessible capitals and fanned out to inspect the books and premises of state-owned enterprises suddenly offered for sale as part of an unprecedented privatisation effort throughout the region.

In the process both seller, usually governments or local authorities, and potential buyer have learnt a huge amount in a very short time. Governments have learnt that the real value of the often technically obsolescent and over-manned plants up for sale is much less than they originally budgeted for. Potential buyers have come up against the difficulties of establishing clear ownership and the extraordinary complexity of operating in societies without functioning banks and all the other technical, legal, financial and marketing institutions and expertise which make up the modern capitalist environment.

There have been burnt fingers as early investors bought assets from shady ex-communist nomenklatura "owners" or over-valued shares on fledgling stock exchanges. But the pace and quality of merger and acquisition activity is on a steadily rising graph as increasingly sophisticated government privatisation agencies, depending heavily on foreign advisers, look for investors able to re-integrate their industries into world markets rather than short-term budgetary income.

Investors for their part have established a clearer idea of what is available and which countries are furthest advanced along the path of institutional and legal reforms based largely on existing EC practices.

Hungary, Czechoslovakia and Poland, in that order, have been identified as the "fast-track" reformers whose impending admission to associate membership of the EC, effective macro-stabilisation and privatisation policies and proximity to west European markets have made them the main targets for private investors. The international institutions are also heavily involved in financing industrial, agricultural and energy modernisation. But World Bank, IMF and EC funds are also being channelled into Albania, Bulgaria, and Romania to try to compensate for their relative disadvantage and the additional political instability flowing from the ethnic conflicts in Yugoslavia.

Uptil now, the amount of direct investment in the region has been relatively small with Hungary taking the lion's share, over $1.5bn in the past 18 months. This has been largely because of the unexpected difficulties which have slowed down the unprecedentedly ambitious privatisation programmes. Given the acute shortage of domestic capital a large proportion of the consummated and potential privatisation deals are in effect taking place through foreign acquisitions.

Thus far, there have been few mega-deals. The biggest has been Volkswagen's stage-by-stage 70 per cent purchase of the Skoda car business in Czechoslovakia, a classic strategic investment to acquire both market share and low-cost production facilities. Such considerations also inspired Fiat, General Motors, Ford, Suzuki and other motor manufacturers, driven as much by the defensive need to compete globally as by immediate prospects of large sales in markets with long-term potential but many short-term problems, including falling real incomes and rising unemployment.

Although the automobile industry has been the most visible investor so far, the need to modernise transport infrastructure, telecommunications and power generation as well as replace heavily polluting chemical, steel and other industries with consumer-based or high-tech industries has sent merchant bankers, multinationals and niche-producers scurrying around the region looking for new subsidiaries to integrate profitably into their existing operations.

Given the political and economic risks involved in investing in the region, many potential investors look for companies and assets which could be turned round by injections of management know-how and limited technology transfers rather than heavy physical investment. Asea Brown Boveri, the Swiss-Swedish electrical and generating group, has targeted companies throughout the region and raised productivity by concentrating on management retraining and motivating existing but slimmed-down local workforces.

For companies like ABB, Siemens and the other main players in the power generating business, Eastern Europe is both a market for new and less polluting generating equipment and a low cost base for production of the heavy foundry items and labour intensive products which help to keep overall costs down.

At the other end of the spectrum, the liberalisation of imports which has been an essential part of the new democracies' market-oriented strategies has flooded the newly privatised shops, especially in central Europe, with imported processed foods and consumer goods formerly only available at hard currency shops or to the nomenklatura.

This proof of pent-up demand has led to a spate of acquisitions of Polish, Hungarian and Czech food companies, like the $25m purchase of Alima, Poland's leading baby food manufacturer, by Gerber of the US, one of three similar deals brokered by the M&A department of Austria's Creditanstalt.

Anthony Robinson

Neil Weinberg reports on the Japanese scene

Synergies at home

JAPANESE businesses have long relied on mergers and acquisitions at home to rescue faltering companies and create new synergies, and only during the cross-border binge of the late 1980s did overseas activity reign supreme. The home market is now rapidly regaining its traditional pre-eminence.

Japanese corporations conducted a larger number of M&A transactions domestically in the first half of 1991 than they did abroad for the first time since 1987, according to Yamaichi Securities. At the same time, the volume of outbound activity has dropped because of tighter monetary conditions and a clearer understanding of the perils of foreign buyouts.

According to Daiwa Securities, the value of outbound M&A plummeted 73 per cent in the first nine months of this year, compared to a 21 per cent rise for domestic transactions.

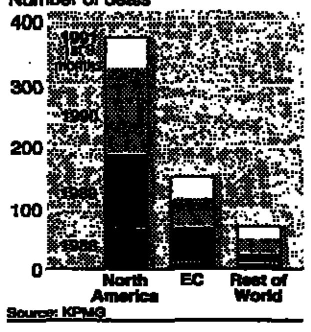
As elsewhere, once sleepy local industries are braced for deregulation and an onslaught of competition as Japan's frustrated trading partners and long-suffering consumers become increasingly insistent on freer markets.

Foreign pressure, most notably by the US government, has prompted a revision of Japan's Large-Scale Retail Store Law and set the stage for changes in the retail and distribution industries that will have wide-spread implications for pricing and market access.

Many sectors which have remained safely under the umbrellas of public subsidy or private cartel are being forced to change their ways. The beef industry lost its import quota protection and market entry restrictions in April. Pharmaceutical makers face government-mandated price cuts and are on notice to replace a manipulative rebate system for wholesalers and retailers with more competition.

Japan's once passive Fair Trade Commission is speeding reform by taking a firmer line against anti-competitive practices. Prosecutions and fines are both on the rise though still skimpy by the standards of more vigilant nations.

Japanese cross-border acquisitions



Source: KPMG

All this suggests that the 1990s will see a rationalisation and consolidation of Japanese industry, with mergers and acquisitions playing a key role.

"Companies in a wide range of industries are considering how to increase their market shares, technology, product lines and R&D capabilities. We're noticing more and more merger possibilities," says Mr Masaharu Yonezawa, president of the Recof M&A boutique.

Other M&A incentives are uniquely Japanese. Local firms, like foreign counterparts, feel increasingly excluded from new markets within Japan by the world's highest land prices, prohibitive start-up costs and a paucity of workers. Some are turning to M&A to sidestep these structural barriers.

The 1990 stock market crash and financial distress reflected in this year's record-high bankruptcy rate also indicate that the number of rescue-type mergers and acquisitions will climb. While most financial industry and real estate deals will not involve M&A advisers, troubles in other sectors will, says Mr Yonezawa.

Although many large Japanese and foreign companies are scouring the nation for acquisition targets, few firms seem willing to be taken over. Hostile takeovers are not only frowned upon but positively shunned, and their practitioners are viewed as corporate outcasts.

There is a deep-seated Japanese aversion to selling a company – rooted in the view of firms as socio-economic entities rather than financial commodities. "In local markets many people think selling a company is a kind of sin or taboo. These areas are very conservative so they resist an invasion from big companies," says Mr Hideo Karino, general manager of corporate development services at Nikko Securities.

But a flood of publicity tying leading corporations to the M&A market has improved the industry's image, and even the terminology has changed. *Nottori*, the word once used for acquisition translates as "capture" or "usurp," while the now more common *baishu* merely connotes "buyout".

As the market heats up, even potential foreign buyers are expected to meet with greater success than in the past. Communication and cultural barriers, as well as anti-foreign sentiment, will still complicate their search, but every year a few succeed and M&A specialists predict a slow yet steady increase.

Nikki Tait on the big fall in business

A US credit crunch

"I MISS the old days," reminisced one of Wall Street's more prominent takeover lawyers, forgetting temporarily that he was meant to be selling his firm's newly-expanded bankruptcy skills. From his point of view, it was an understandable sentiment – for US merger activity is down, and remaining so.

The statistics make the point bluntly. According to Merrill Lynch data, the number of M&A announcements in the first three quarters of 1991 fell by 10 per cent over the previous year; the number of divestitures slumped by 11 per cent; and the total dollar value of deals was down by 27 per cent, at $61.5bn.

The only cheerful element in these figures concerned the rate of decline. In the first quarter, M&A announcements were 18 per cent down on the same period a year earlier. By the third quarter, the fall – year-on-year – was just 1 per cent. But even this progress should be treated with caution: the third quarter of 1990, after all, was clouded by worries about the Gulf conflict, and most businessmen put major strategic moves on hold.

Moreover, compare the latest figures with those of the late 1980s, and the full extent of the diminution in M&A business becomes apparent. In the first three months of 1989, for example, nearly 2,000 deals were announced and the dollar value of M&A activity was some $188.1bn, three times this year's level.

A good part of the reason why such a dramatic slump in activity has occurred lies in the funding issue. Junk bonds, as a source of M&A finance, died with the last decade, while corporate America generally is struggling against a "credit crunch" at the major commercial banks. Since this, in turn, derives partly from the banks' surfeit of soaring real estate-related and highly leveraged transaction loans, the chances of a "quick fix" are slight.

What, then, of those deals which have flowed? For a start, it is noticeable that the number of deals where payment involves cash only has dwindled from 56 per cent in 1988 to 38 per cent in the first three quarters of 1991. Stock-only deals have risen from 21 per cent to 33 per cent over the same period, while transactions involving a combination of payment forms have risen to 29 from 23 per cent.

This is indicative of the shifting nature of the deals themselves. Many of this year's largest transactions have involved either foreign investment – sometimes in ailing situations – or some form of industry consolidation.

On the latter front, for example, it is noticeable that three of the four largest announced deals are bank mergers – between NCNB and C&S/Sovran, BankAmerica and Security Pacific, and Chemical Bank and Manufacturers Hanover. The restructuring in this sector is partly defensive – in theory, a merger between large commercial banks throws up all sorts of cost-savings. But it is also aggressive, as a new class of "super-regional" bank is created out of the debris of the ailing competition.

But while the troubled commercial banking sector makes the consolidation point bluntly, it is by no means the only industry to see such a trend. In the computer sector, for example, Apple and IBM – traditionally rivals and ranking Nos 1 and 2 in the industry – have announced a research collaboration. Peppering the "big deals" list are "telecommunications" mergers, such as Bell Atlantic and Metro Mobile. Though the sums involved are not usually of mega-proportions, airline mergers and asset acquisitions have been a familiar feature of the US corporate scene over the past 18 months.

Whether this will prompt an anti-trust backlash at some stage is a moot point. Already, there have been rumblings *vis-a-vis* consolidation in the airline industry, but if companies are losing large sums of money, it is hard to push the price-fixing objections very far.

The second ongoing source of M&A deals is foreign investment. Japanese and British interest is less evident than a few years ago, but continental Europeans are still buying. The year's third biggest deal to date was the French Groupe Schneider's $3bn acquisition of Square D.

This interest has not always centred on America's most healthy corporate specimens. In the insurance sector, for example, the three largest "distressed situations" – Executive Life of California, New Jersey's Mutual Benefit and Equitable Life – all attracted European rescue offers.

Axa, the French insurer, agreed to invest $1bn in Equitable, a sum which should translate into a sizeable minority stake when the New York-based life company, No 3 in the industry, demutualises. A French consortium, headed by a Credit Lyonnais subsidiary was one of the contenders for ELIC. Amev, the Dutch insurance and banking group, lapped up a notable chunk of Mutual Benefit.

Still, in a depleted deal environment, Wall Street's investment banking community can only give thanks for any continuing activity.

The French edge ahead

BRITISH *companies were the biggest* acquirers abroad during 1990, but lost that distinction to French companies in the first nine months of this year.

The chart below, compiled from figures assembled by KPMG, the accounting group, illustrates both outward and *inward merger and acquisition activity* in certain European countries.

The left-hand side shows the value of overseas acquisitions made by companies in each of the countries listed, *while the right-hand side shows* acquisitions of these companies by foreigners.

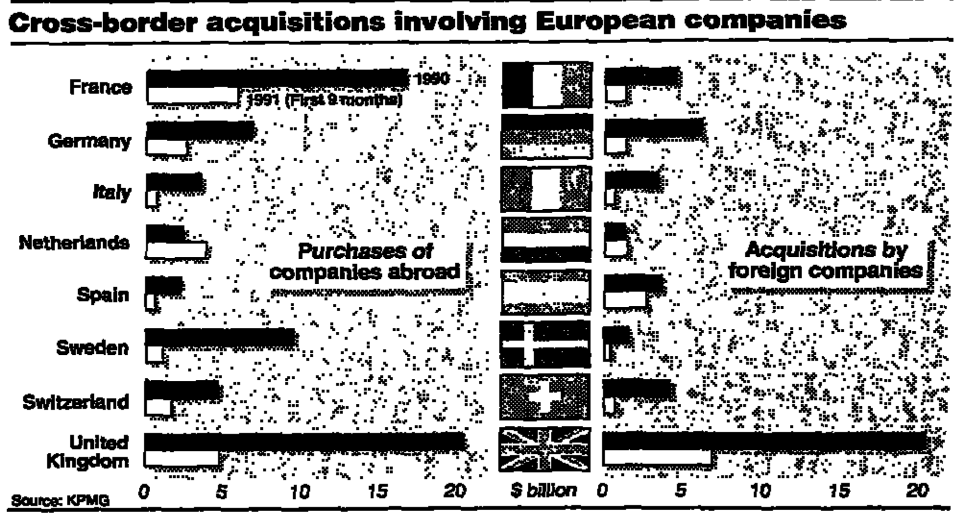
This balance sheet of inward and *outward M&A investment illustrates that,* during 1990, British companies spent $20bn on overseas acquisitions, while foreign companies spent almost exactly the same on acquisitions in the UK.

By comparison, French companies went on an international buying spree *(at nearly $17bn) at a time when* foreigners spent under $5bn buying French companies.

On much-reduced deal flow in the first nine months this year, UK companies *spent $4.9bn abroad, $1bn less than* their French counterparts.

Richard Waters

Cross-border acquisitions involving European companies



David Waller dips his finger in Germany's bids and deals honeypot

Who needs advice?

GOLDMAN SACHS has arrived, Kleinwort Benson has opened a mergers and acquisitions office in Frankfurt – *the throng of investment* bankers eager to dip their fingers into Germany's bids and deals honeypot is growing by the day. How discomfiting it must be that German companies do not seem to want their advice.

Take the Hoesch/Krupp situation, which has rapidly become as much of a test case for the future of M&A in Germany as the more prolonged saga of Continental and Pirelli of last year. With Hoesch capitalised at about DM2bn, this could prove to be *the biggest transaction* of the year – if the two Ruhr-based steel and engineering groups *do formally amalgamate*, that is – and yet neither side has a formal financial adviser in the Anglo-American sense of the word.

Hoesch/Krupp illustrates the disadvantages and the advantages of the distinctly German approach to bids and deals.

Without the help of a US or a UK investment bank (though with a Swiss institution helping it to buy shares), Krupp spoke for a majority of Hoesch shares within three weeks of identifying itself as a shareholder – ample proof that Krupp had lost nothing in relying on its long-standing commercial banking advisers.

It is a different story for Hoesch, which despite protestations of friendliness at the joint press conference held after Krupp emerged as a shareholder, was clearly taken completely by surprise by the barely disguised assault on its independence.

A battery of protective measures – for example, a measure curtailing voting rights to 15 per cent irrespective of a potential predator's shareholding – did nothing to stop Krupp building its stake.

Morgan Grenfell – now a subsidiary of Deutsche Bank *and therefore part of the German establishment* – paid a marketing visit to the Hoesch board *in the summer of this* year. It went so far as to prepare preliminary defence plans for the company. Judging by the helplessness of the Hoesch board last month, the plans went unheeded. Certainly, Morgan Grenfell was not appointed as a formal adviser. Hoesch gave every impression of being in need of some good advice and the fate of the company will be alluded to every time an investment bank tries to sell its services to a sceptical German corporate.

There is a temptation to see the Krupp/Hoesch situation as a struggle between a number of *powerful individuals* – between Mr Gerhard Cromme at Krupp and Mr Kajo Neukirchen at Hoesch – a tussle between the bankers, industrialists and politicians who dominate business life in Germany. But there is industrial logic to it as well – Germany has too many steel producers and some consolidation of the sector makes economic sense in an

The fate of Hoesch will be alluded to when an investment bank tries to sell to a sceptical corporate

increasingly competitive marketplace. Some pruning of the staff *of the two organisations* would reap financial rewards – however unpalatable in social and political terms.

The same industrial imperatives are at work in other sectors of the economy. Mr Hendrik Borggreve, head of Kleinwort Benson's recently-opened Frankfurt operation, predicts a bout of consolidation in each of the following sectors: motor components; paper; pharmaceuticals; transportation; machine-tool manufacturing. *Take just car components:* a recent report from SAC Enterprises in the UK predicts a increasing shake-out in a sector with annual turnover of DM17bn. Increasing cost pressures plus the more exacting standards of car manufacturers will lead to "rapid change and rapid restructuring", the report says.

Quite whether restructuring will bring a bonanza for M&A advisers is another question. Most German companies – in these sectors as in any other – are privately owned. The statistics are *somewhat* daunting for investment bankers steeped in the cult of the equity: *of a total of about 1.9m companies* in Germany, only 600 are listed on one of Germany's eight *stock exchanges and only* about 1,500 have AG (plc) status. The action will be concentrated among the 200,000 limited liability companies (GmbH) – the fabled Mittelstand which has been responsible for so much of Germany's post-war economic success.

The proprietors of these enterprises are more likely to turn to their commercial bankers – with whom they will have had a relationship for decades in many cases – rather than a merchant banker.

"It is a large market and a very difficult job," says Mr Bodo Fuchs, head of Deutsche Bank's M&A arm until the Morgan Grenfell takeover (at which point the German bank's M&A operations were brought under Morgan control). *Earlier this year, he* set up his own consultancy with the express purpose of providing independent M&A advice to the Mittelstand. "This is the sort of business you simply can't handle out of London or New York. The classical investment banker junior – just 28 years old and straight out of business school – would be absolutely lost with the 60-70 year-old owner of a medium-sized company."

Mr Borggreve at Kleinworts calculates that of the 600 quoted companies in Germany, *only about 50 can be taken* over – Mr Nigel Meek at Morgan Grenfell in Frankfurt *thinks that the number is even* lower.

Investment bankers unable to get into the difficult Mittelstand market – where a deal would typically take well over six months from start to finish – must content themselves with the thought that large German corporates need to use advisers when they make acquisitions overseas and are increasingly willing to hire an investment bank to handle domestic disposals.

William Dawkins *on activity in the French takeover market*

Corporate raiders slip back

LIKE THE rest of western Europe, the French takeover market is in decline, reflecting the general economic slowdown.

France was relatively late in joining the buoyant acquisition markets of the 1980s, but made up for it with a hectic burst of takeover activity at the turn of the new decade. This put it among the biggest acquirers in US and Europe last year, as leading French companies took part in a global concentration of their sectors or launched what was in many cases an *overdue attempt to become* more international.

The latest wave of acquisitions has tested and refined France's two-year-old takeover legislation reforms, clarifying *the conditions under which* stake-builders must launch full bids and bringing tighter controls on concert party actions.

But now France's big overseas bidders of recent years, such as Rhône-Poulenc, the chemicals group, Alcatel Alsthom, the telecommunications and engineering giant, and Elf Aquitaine, the oil group, are concentrating on integrating the acquisitions they made.

The slowdown began roughly at the start of 1991, though a few important industries have continued to restructure through the recession. French companies made FFr157.7bn worth of acquisitions in the first nine months of this year, down 33 per cent from FFr234.5bn in the same *period of 1990, according to the* magazine Fusions & Acquisitions. The fall is less steep in *terms of numbers of deals*, down 10 per cent to 1,310 in the first nine months.

Within this, the *steepest fall* is for deals between French companies, down by 44.6 per cent to FFr56.4bn, dropping below the FFr72.1bn worth of takeovers they made abroad in the first nine months of 1991.

The US has in the past two years been the main foreign battleground for French corporate raiders such as Saint Gobain, the glass group, Michelin in tyres and the Usinor Sacilor steel group. They see it as the vital market on which to build an international presence. This year has proved no exception.

French businesses made FFr23.9bn of takeovers in the *US in the first nine months of* this year, including the FFr12.5bn unsolicited takeover of Square D, *the electrical distribution group*, by Schneider, the electrical equipment company, *the FFr5.8bn stake taken* in the Equitable Life Assurance Society by Axa, France's second largest insurer and the FFr3.8bn takeover of the transmission equipment division of Rockwell by Alcatel Alsthom, the telecommunications and engineering giant.

Meanwhile, French takeovers – especially from the country's large state sector – have brought a new test to UK competition laws. French state-controlled companies have since early 1989 made more European cross-border acquisitions than nationalised groups from anywhere else in Europe – and Britain has been their favourite target.

As a result, over the past year, the UK Department of *Trade and Industry has* referred four bids by French state-owned companies to the Monopolies and Mergers Commission (MMC), on fears that they were covert privatisations by the Paris government.

But the MMC cleared all four, arguing that the companies involved were managed independently under normal commercial conditions. This caused the European Commission to ask the UK government to clarify its competition policy. Britain has now accepted significant limits on its freedom to scrutinise bids by foreign state-owned companies.

If French companies have been busy abroad, incoming takeovers by foreign businesses have also been on a steady increase, up 18.2 per cent to FFr29.2bn in the first three quarters of this year. *This is in part a testament to* the Socialist government's dismantling of restrictions on foreign investment over the past three years as well as French management's growing willingness to seek partners or new owners outside France.

The liberal mood has been especially noticeable in the public sector, opening the way for Renault, the state-owned carmaker, to strike a share exchange deal with Volvo of Sweden last year and for NEC, the Japanese electronics group, to take a 5 per cent stake in Bull, the state-owned computer maker, in July.

The arrival of Mrs Edith Cresson as prime minister last spring looked at first as if it might herald a tougher stance on foreign bids. In the event, the government's liberalism appears undiminished. She did have reservations about the NEC-Bull deal, but eventually bowed to Bull's requirements, asking only for an option for the state to buy out NEC in case of disagreement.

Another example of the government's liberalism is its decision earlier this month to approve the purchase by Nissan, the Japanese carmaker, of its French distributor – a notable move given the sensitivities over competition from the Japanese car industry.

On the purely domestic scene, the big issue over the past year has been how the stock market authorities will interpret the new takeover laws. These introduced the idea that any investor, acting alone or in concert, reaching more than 33.33 per cent of a company's capital must bid for two-thirds of the equity.

Until recently, *some* operators had found a way round this obligation, but their room *for manoeuvre was limited in* June by a ground-breaking decision by the Conseil des Bourse de Valeurs (CBV), the body in charge of stock exchange regulations.

The case was about a change of control in Delmas-Vieljeux, a family-owned shipping company under attack from the Bolloré transport and industrial conglomerate. No single investor had actually exceeded the 33.33 per cent threshold, but the CBV reckoned Bolloré had acted in concert with another investor, a holding company called El Rabha, and so should launch a full bid.

The CBV also said Clinvest, the investment banking arm of Crédit Lyonnais, the state-owned bank, must join the bid because it had taken a large stake in El Rabha. All this has worrying consequences for French banks keen to build up industrial equity portfolios to help their corporate finance businesses. "Some of them feel they are looking down a loaded gun," says one M&A lawyer.

Bolloré has appealed against the CBV's decision. It is expected that the Paris Appeal Court will shortly throw new light on the rules of the game in French mergers and acquisitions.

Haig Simonian *on Italian companies' ambitions*

The push abroad

ITALY'S mergers and acquisitions scene has changed rapidly of late as domestic *companies have recognised the* need to internationalise.

By contrast, purchases of *Italian groups by foreigners* – always the stronger deal flow – have declined in line with the general drop in large M&A deals and a reluctance among buyers to pay high prices to gain Italian market share.

More surprising has been this year's surge in domestic valuation business, which bridges the gap between M&A and traditional corporate finance. Stemming largely from the Italian government's halting *privatisation* programme and some state sector companies, the importance of *valuations has grown rapidly*.

While foreign investment banks and M&A specialists *have traditionally had an edge* over domestic institutions in cross-border M&A deals, Italian merchant bankers have been irked by the increasing tendency for outsiders to win valuation mandates too.

Two of the most prominent have gone to UK houses. Kleinwort Benson was asked by the Treasury to value Crediop, the medium-and-long term credit institution being sold to Istituto Bancario San Paolo di Torino. Meanwhile, S. G. Warburg has prepared the valuation for Istituto Mobiliare Italiano (IMI), the state-owned investment banking and fund management group which several savings banks, led by *Milan's* Cariplo, would like to buy.

Domestic bankers appreciate *that the choice of valuer can* be motivated by more than just technical expertise. In *privatisations in particular*, the rubber stamp from a leading foreign merchant bank can help to silence political opposition.

However, the fact that both the Crediop and IMI mandates came from the Treasury – a first for foreign merchant banks, it is believed – and the likely fees involved rankled some domestic professionals.

"It has been disappointing to see so many foreign merchant banks getting mandates. This is not Zaire or Zimbabwe," says one irate domestic banker who prefers anonymity.

Two deals this month illustrate Italian companies' current push abroad. Marzotto, a leading textile and clothing manufacturer, paid $165m for the majority of voting shares in Hugo Boss, the German producer of upmarket men's clothing, from its former Japanese *owner. And insurance giant* Generali bought control of Familia Lebensversicherung in Switzerland.

Mr Guido Roberto Vitale, the managing director of Euromobiliare, the Milan-based merchant bank controlled by Midland Bank of the UK, says the two deals confirm a trend first set last year, when the Florence-based SMI metals group bought control of Kabelmetal in Germany from MAN for around DM552m.

"Apart from Fiat, Italian companies have tended to ignore Europe in the making. The rush now represents a last-minute attempt to grab the *opportunities left*," he says. Several recent transactions have reinforced the trend, *suggesting greater expertise and* more determination among potential Italian buyers.

Yet not so long ago the Italians were thought of as inactive in cross-border M&A. That stemmed largely from the fact that state-owned companies, concentrated in IRI, ENI and EFIM, the three big holding companies, "were so strong at home they had no real incentive to grow abroad," say's Euromobiliare's Mr Giovanni Tamburi. Meanwhile, the private sector was dominated by small to medium size companies, reluctant to expand beyond their domestic base.

Pirelli's abortive bid for Firestone and the failed takeover of Irving Trust by Banca Commerciale Italiana are the two most-cited examples of large bids that went sour. Even Generali was wrong-footed in trying to develop links with Axa-Midi of France. "Either the mentality wasn't there, or the Italians lacked the resources," says an M&A specialist.

Not even all the recent deals have been *resounding successes*, as the months-long Pirelli-Continental saga has shown. *The original aim* – a straightforward acquisition of Continental, the German tyres and industrial group, by Pirelli, its Italian equivalent – has long since given way to a looser form of collaboration.

Domestic M&A deals have seen fewer such mishaps. The year's biggest transaction, the L504bn sale of a controlling stake in the Latina insurance company to Fondiaria, the expanding Florence-based insurer, went smoothly. The vendors, Mr Carlo De Benedetti's Cofide and Cerus groups, were advised by Euromobiliare, with which it retains a close relationship.

Slightly smaller was the L345bn sale in October by Citibank of its Naples-based Citibank Italia subsidiary to Banco Ambrosiano Veneto. Citibank's *own Italian M&A, now the only* remaining link in its former worldwide M&A chain, played the advisory role.

Despite its isolation, the Citibank team has been involved *in some of this year's bigger* M&A deals, notably the $130m sale of USAG, Italy's leading *hand tool* manufacturer, to a French purchaser, and the $80m acquisition by the Barilla foods group of Misko, the largest pasta maker in Greece.

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Gilts & Fixed Int	6	117 1	117 1	124 2		
High Inc Equity	6	130 6	133 8	142 3		
Worldwide Bond	6	210 8	210 8	223 6		

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

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Life Managed Fd	107.5	113.2	-	41924
Pension Managed Fd	106.1	111.7	-	41926
Life Deposit Fd	110.6	116.5	-	41923
Pension Deposit Fd	117.5	123.5	-	41925

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	Bid Price	Offer Price	Yield Gross	City-line
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The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Harvester Pension Funds				
Managed	169.9	178.9	-	43141
UK Equity	180.2	189.7	-	43135
Overseas Equity	135.8	143.0	-	43136
Fixed Interest	155.8	164.0	-	43137
Property	133.8	140.9	-	43138
Index Linked	152.4	160.5	-	43139
Deposit	163.6	172.3	-	43140
With Profits (B)	134.0	141.1	-	44128

	Bid Price	Offer Price	Yield Gross	City-line
National Provident Institution				
48 Gracechurch St, London EC3P 3HH 071-623 4200				
Managed	355.4	374.2	-	43163
UK Equity	448.0	471.6	-	43164
Overseas Eq	341.9	359.9	-	43165
American	291.9	307.3	-	43166
Far East	366.9	386.3	-	43167
Property	194.1	204.4	-	43168

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Weak sterling supports UK rates

UK money market interest rates remained unmoved by sharply lower retail price inflation data for October as the weakness of sterling was seen to rule out an early easing of monetary policy.

Figures released on Friday showed retail price inflation running at a year-on-year rate of 3.7 per cent for the month, down from 4.1 per cent in September.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

Earlier this year similar declines in inflation have triggered a cut in base rates. However, sterling was weakmarkets last week, prompting the Bank of England to intervene in the middle of the week to support the UK currency above DM2.90.

The weakness of sterling is seen as precluding any early cut in UK base interest rates, which have been unchanged at 10.5 per cent since September 4. The UK currency closed the week at DM2.8950, against a central rate of DM2.95.

The December short sterling contract on the London international financial futures exchange closed the week at 89.65, implying short money rates of 10.35 per cent by the year end - little change from on the foreign exchange current levels.

Fears that the Bundesbank will raise German interest rates receded last week as the central bank was seen to meet the liquidity requirements of the money market. Money market interest rates eased marginally, suggesting that the Bundesbank is not squeezing liquidity as a prelude to a general tightening of monetary conditions.

Call money closed the week at 8.95 to 9.05 per cent, down from a peak of 9.05 to 9.10 per cent reached on Wednesday.

£ IN NEW YORK

Nov.15	Close	Previous Close
£ Spot	1.7845-1.7855	1.7760-1.7770
1 month	0.82-0.80pm	0.81-0.79pm
3 months	2.34-2.31pm	2.34-2.31pm
12 months	8.20-8.10pm	8.18-8.08pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Nov 15	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.2	-20.4
U.S Dollar	63.6	-15.8
Canadian Dollar	106.0	+3.3
Austrian Schilling	109.8	+12.1
Belgian Franc	111.5	-1.9
Danish Krone	108.7	+2.9
D-Mark	118.4	+25.0
Swiss Franc	[illegible]	[illegible]

STERLING INDEX

OTHER CURRENCIES

CURRENCY RATES

POUND SPOT - FORWARD AGAINST THE POUND

Nov 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7665 - 1.7750	1.7685 - 1.7695	0.82-0.80cpm	5.49	2.34-2.31pm	5.26
Canada	1.9958 - 2.0075	1.9995 - 2.0005	0.47-0.39cpm	2.58	1.45-1.33pm	2.78
Netherlands	3.2550 - 3.2700	3.2600 - 3.2700	¼-¼cpm	0.92	¾-⅝pm	0.92
Belgium	59.40 - 59.75	59.60 - 59.70	8-3cpm	1.11	17-12pm	0.97
Denmark	11.2195 - 11.2650	11.2550 - 11.2650	1¼-¾orepm	1.07	3¾-2¾pm	1.07
Ireland	1.0830 - 1.0870	1.0840 - 1.0850	0.02-0.07cdis	-0.50	0.03-0.13dis	-0.30
Germany	2.8895 - 2.9000	2.8950 - 2.9000	⅜-¼pfpm	1.29	⅞-¾pm	1.04
Portugal	250.90 - 253.85	251.60 - 252.60	6-48cdis	-1.29	101-175dis	-2.19
Spain	181.75 - 182.70	182.15 - 182.45	28-39cdis	-2.21	97-111dis	-2.28
Italy	2178.40 - 2184.75	2183.75 - 2184.75	par-2liredis	-0.55	4-6dis	-0.92
Norway	11.3360 - 11.3805	11.3700 - 11.3800	⅝-⅛orepm	0.40	¾-¼pm	0.18
France	9.8750 - 9.9125	9.9025 - 9.9125	⅞-⅝cpm	0.91	2⅜-2pm	0.88
Sweden	10.5620 - 10.6100	10.6000 - 10.6100	⅜-1½oredis	-1.20	2⅞-3¼dis	-1.04
Japan	229.25 - 230.40	229.25 - 230.25	⅞-⅝ypm	3.92	2½-2¼pm	4.13
Austria	20.32 - 20.39	20.34 - 20.37	2¼-1⅛gropm	0.99	5¼-2¾pm	0.77
Switzerland	2.5620 - 2.5750	2.5650 - 2.5750	⅝-½cpm	2.63	1⅝-1⅜pm	2.33
Ecu	1.4145 - 1.4285	1.4175 - 1.4185	0.09-0.05cpm	0.59	0.17-0.12pm	0.41

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.42-4.37cpm . 12 Month 8.25-8.15pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Nov 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7665 - 1.7750	1.7685 - 1.7695	0.82-0.80cpm	5.49	2.34-2.31pm	5.26
Ireland†	1.6290 - 1.6375	1.6310 - 1.6320	0.69-0.64cpm	4.89	2.03-1.93pm	4.85
Canada	1.1290 - 1.1310	1.1300 - 1.1310	0.26-0.29cdis	-2.92	0.69-0.73dis	-2.51
Netherlands	1.8305 - 1.8460	1.8445 - 1.8455	0.66-0.69cdis	-4.39	1.98-2.02dis	-4.34
Belgium	33.55 - 33.80	33.70 - 33.80	11.00-13.00cdis	-4.27	34.00-39.00dis	-4.33
Denmark	6.3330 - 6.3595	6.3625 - 6.3675	2.10-2.40oredis	-4.24	6.55-7.15dis	-4.3
Germany	1.6285 - 1.6390	1.6375 - 1.6385	0.56-0.57pfdis	-4.14	1.76-1.78dis	-4.32
Portugal	142.10 - 143.50	142.10 - 142.60	76-84cdis	-6.74	255-272dis	-7.45

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Nov.15	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	Ecu
£	1	1.769	2.898	229.8	9.908	2.570	3.265	2184.	2.000	59.65	1.418
$	0.565	1	1.638	129.9	5.601	1.453	1.846	1235	1.131	33.72	0.802
DM	0.345	0.610	1	79.30	3.419	0.887	1.127	753.6	0.690	20.58	0.489
YEN	4.352	7.698	12.61	1000.	43.12	11.18	14.21	9504	8.703	259.6	6.171
F Fr.	1.009	1.785	2.925	231.9	10.	2.594	3.295	2204	2.019	60.20	1.431
S Fr.	0.389	0.688	1.128	89.42	3.856	1	1.270	849.8	0.778	23.21	0.552
H Fl.	0.306	0.542	0.888	70.38	3.035	0.787	1	668.9	0.613	18.27	0.434
Lira	0.458	0.810	1.327	105.2	4.537	1.177	1.495	1000.	0.916	27.31	0.649
C$	0.500	0.885	1.449	114.9	4.954	1.285	1.633	1092	1	29.83	0.709
B Fr.	1.676	2.966	4.858	385.2	16.61	4.308	5.474	3661	3.353	100.	2.377
Ecu	0.705	1.248	2.044	162.1	6.987	1.812	2.303	1540	1.410	42.07	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

LONDON MONEY RATES

FT LONDON INTERBANK FIXING

MONEY RATES

CHICAGO

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

PARIS		
Intervention Rate	9¼	Unch'd
One mth. Interbank	9⅝	-⅛
Three month	9⅞	+⅛
MILAN		
One month	11½	+⅛
Three month	11⅛	+⅛
DUBLIN		
One month	10⅛	Unch'd
Three month	10⅛	Unch'd

Money Market Trust Funds

Money Market Bank Accounts

Clydesdale Bank PLC, 30 St Vincent Place, Glasgow G1 2HL 041 248 7070

£2,000-£24,999	8.25	6.19	8.51	-
£25,000-£99,999	9.00	6.75	9.31	-
£100,000+	9.50	7.13	9.84	-

Co-operative Bank, PO Box 300, Skelmersdale, Lancs 0800 616162

TESSA				
TESSA	11.50	-	-	-
Investment 90-90 Day Notice Savings				
£50,000+	10.75	8.10	11.0	-
£25,000-£49,999	10.50	7.90	10.8	-
£10,000-£24,999	9.50	7.10	9.7	-

Western Trust, The Moneycentre, Plymouth PL1 1SE 0752 224141

£15,000+	10.00	7.50	10.38	-
£5,000-£14,999	9.75	7.31	10.11	-
£1,000-£4,999	9.50	7.13	9.84	-

Wimbledon & South West Finance PLC, 114 Newgate St, London EC1 7AE 071-606 9485

High Int Cheque Acc	10.60	7.95	11.03	-

NOTES- Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 8	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.90	86.99	86.92	86.96	86.97	87.26	87.94	82.17	127.4	49.18
Fixed Interest	96.54	96.57	96.56	96.57	96.55	96.53	97.17	90.59	105.4	50.53
Ordinary	1948.6	1963.3	1956.4	1984.9	1972.0	1975.5	2108.3	1606.3	2108.3	49.4
Gold Mines	149.8	149.7	149.4	149.6	149.4	148.9	222.8	127.0	734.7	43.5
FT Act All-Share	1228.71	1235.09	1229.01	1242.07	1234.87	1236.43	1284.07	987.46	1284.07	61.92
FT-SE 100	2546.6	2561.6	2546.5	2575.5	2554.9	2569.0	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1109.27	1109.78	1104.90	1108.72	1100.31	1102.71	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1161.16	1164.85	1160.29	1165.75	1156.48†	1159.92	1198.60	938.62	1198.60	938.62

† Partial.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Fri Nov 15 US Dollar Index	% chg since 31/12/90	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/90	Gross Div. Yield	Thu Nov 14 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago (approx)
Australia (69)	158.48	+34.2	132.82	130.13	134.98	134.13	+31.8	4.51	158.03	131.96	129.71	133.97	133.59	160.31	112.74	123.81
Austria (20)	169.19	-14.0	141.80	138.93	144.08	143.94	-5.9	1.98	170.23	142.15	139.73	144.31	144.15	222.37	153.88	199.04
Belgium (47)	134.31	+1.6	112.56	110.27	114.37	111.78	+10.8	5.30	134.55	112.35	110.45	114.05	111.65	151.20	118.04	138.42
Canada (115)	141.55	+6.9	118.63	116.22	120.53	117.73	+6.4	3.21	143.63	119.88	117.84	121.49	117.49	144.28	120.46	125.09
Denmark (37)	260.81	+12.1	218.58	214.16	222.10	225.78	+23.5	1.57	262.69	219.52	215.78	222.85	226.51	270.58	217.74	255.38
Finland (15)	82.91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	104.44
France (109)	146.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	140.27
Germany (65)	113.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	117.38
Hong Kong (55)	162.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	122.39
Ireland (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	151.43
Italy (77)	71.06	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	79.73
Japan (474)	137.44	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	126.07
Malaysia (68)	209.30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	192.91
Mexico (17)	1404.83	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	551.15
Netherland (31)	147.78	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	133.58
New Zealand (14)	48.99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	47.90
Norway (30)	181.19	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	219.30
Singapore (38)	208.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	154.68
South Africa (61)	267.30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	176.67
Spain (53)	148.29	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	148.48
Sweden (29)	174.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	188.01
Switzerland (59)	98.66	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	91.31
United Kingdom (240)	180.42	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	162.60
USA (526)	155.67	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	127.98
Europe (826)	143.06	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	138.68
Nordic (107)	179.61	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	179.19
Pacific Basin (718)	138.81	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	125.51
Euro - Pacific (1544)	140.84	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	130.41
North America (641)	154.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	127.71
Europe Ex. UK (586)	120.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	120.41
Pacific Ex. Japan (244)	152.34	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	118.27
World Ex. US (1737)	143.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	130.92
World Ex. UK (2023)	142.95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	125.58
World Ex. So. Af. (2202)	145.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	128.58
World Ex. Japan (1789)	152.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	131.60
The World Index (2263)	146.21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	128.87

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
750	Treas. 9pc 1992-96‡‡	99⅝	-0.2	9.8	15Sep 15Mar	1344
1,150	Treas 15¼ pc 1996‡‡	118⅞	-0.3	27.9	3Nov 3May	1309
800	Exch 13¼ pc 1996‡‡	111⅞	-0.2	9.10	15Nov 15May	1268

Five to Fifteen Years

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
1,809	Conversion 10pc 1996	101⅛	-0.2	9.10	15May 15Nov	1240
1,200	Do. 10pc 1996 B.	100⅞xd	.....	9.10	15May 15Nov	-
1,290	Treas 13¼ pc 1997‡‡	113⅞	-0.3	17.6	22Jul 22Jan	1302
3,300	Exch 10½ pc 1997	102⅛	-0.3	15.7	21Aug 21Feb	1253
3,600	Treas 8¾ pc 1997‡‡	96	-0.2	26.7	1Mar 1Sep	1341
830	Exch 15pc 1997	121⅞	-0.2	20.9	27Apr 27Oct	1269
3,050	Exch. 9¾ pc 1998	100⅛	-0.1	12.6	19Jul 19Jan	1273
1,000	Treas 6¾ pc 1995-98‡‡	88⅞	-0.1	25.9	1Nov 1May	1331
935	Treas. 15½ pc '98‡‡	127⅞	-0.1	27.8	30Mar 30Sep	1308
3,658	Exch. 12pc 1998	110⅝xd	-0.1	14.10	20May 20Nov	1259
1,450	Treas 9½ pc 1999‡‡	99⅞	-0.2	10.6	15Jul 15Jan	1347
2,900	Exch. 12¼ pc 1999	112⅞	-0.2	20.8	26Sep 26Mar	1264
1,252	Treas. 10½ pc 1999	104⅛xd	-0.1	14.10	19Nov 19May	1288
1,548	Conversion 10¼ pc 1999	102⅞xd	-0.1	16.10	22May 22Nov	1242
2,759	Conversion 9pc 2000‡‡	97	0.1	29.7	3Sep 3Mar	1244
3,171	Treas. 13pc 2000	117⅛	.....	7.6	14Jan 14Jul	1299
3,906	Treas 10pc 2001	102⅛	0.1	22.7	26Aug 26Feb	1280
970	Treas. 14pc '98-01	118⅞xd	-0.1	16.10	22Nov 22May	1306
3,075	Treas 9¾ pc 2002	100⅞	.....	22.7	27Feb 27Aug	1349
1,703	Treas 10pc 2003	102⅞	-0.1	2.8	8Mar 8Sep	1281

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
1,620	Treas. 11½ pc 2001-04	[illegible]	.....	13.8	19Sep 19Mar	1290
443	Funding 3½ pc '99-04	61	-0.3	7.6	14Jan 14Jul	1274
1,512	Conversion 9½ pc 2004	98⅞	-0.2	18.9	25Apr 25Oct	1246
1,500	Cv 9½ pc 2004 A (£40pd)	59⅞	0.3		25Apr 25Oct	-
3,192	Conversion 9½ pc 2005	98⅞	-0.2	11.9	18Oct 18Apr	1247

Undated

Amount £m	Stock	Price £	Wk % change
135	Conv. 3½ pc '61 Aft	59⅞	[illegible]
56	Treas. 3pc '66 Aft	38⅞xd	[illegible]
276	Consols 2½ pc	25⅞xd	[illegible]
475	Treas. 2½ pc	25⅞	[illegible]

Index-Linked

Amount £m	Stock (b)	Price £
500	Treas. 2pc '94 (102.9)	123⅞
1,000	Do. 2pc '96 (67.9)	177⅞
1,000	Do 2½ pc '01 (78.3)	145⅞
800	Do. 2½ pc '03 (78.8)	140⅞xd
1,200	Do. 2pc '06 (69.5)	142⅞
950	Do. 2½ pc '09 (78.8)	130⅝xd
1,450	Do. 2½ pc '11 (74.6)	134⅞
1,300	Do. 2½ pc '13 (89.2)	110⅞
1,700	Do. 2½ pc '16 (81.6)	118⅞
1,400	Do. 2½ pc '20 (83.0)	113⅛xd
900	Do. 2½ pc '24‡‡ (97.7)	93⅞

(b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1991: 131.4 and for October 1991: 135.1.

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	106	0.1	1.12	4 Jan 4 Jul	-
100	Asian Dev Bk 10¼ pc Ln 2009	100⅞	0.1	28.3	24Mar 24Sep	-
75	Int-Am Dev Bk 12½ pc 2003	114⅞	-0.1	7.12	8Jan 8Jul	-
175	Do. 9¾ pc Ln 2015	96	.....	13.10	15 May 15 Nov	-
50	Int. Mexican States 16½ pc 2008	124½	.....	28.1	1Mar 1Sep	-

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

Continued on next page

U.S. $225,000,000

BACOB

BACOB Overseas Limited

(Incorporated in the Cayman Islands with limited liability)

Guaranteed Floating Rate Notes due 1994

unconditionally and irrevocably guaranteed by

BACOB Savings Bank s.c.

(Incorporated in Belgium as a co-operative limited liability company)

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 18th February, 1992 has been fixed at 5.25% per annum. The interest accruing for such three month period will be U.S. $138.54 per U.S. $10,000 Note and U.S. $1,385.42 per U.S. $100,000 Note against presentation of Coupon Number 1.

Union Bank of Switzerland
London Branch Agent Bank

13th November, 1991

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline, call 0836 43 + four digit code. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Share Code Booklet call 071-925-2128.

AMERICANS

Market Cap. £m	Stock	Price £	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
14 769.0	Abbott Laboratories	34⅝	3.6	1.6	9.10	FeMyAuNv	1503
117.4	Allegheny & W 1c	226p	-3.4	7.5	–	–	–
928.4	Amdahl 5c	858p	-7.8	0.7	31.1	NvMrJeAu	–
3,251.8	Amer. Cyanamid $5	34¼	-1.1	2.4	27.2	MrJeSeDe	–
5,198.6	Amer. Express 60c	11	5.7	5.1	1.10	FeMyAuNv	1594
20,112.3	American T. & T $1	21	-1.4	3.4	27.3	FeMyAuNv	1597
15,997.9	Ameritech $1	35	0.4	5.4	28.3	FeMyAuNv	–
4,663.9	BankAmerica $1	21	-4.6	3.1	16.8	FeMySeDe	1744
3,109.1	Bankers N.Y. $1	38	3.6	7.2	27.9	ApJyOcJa	1745
10,274.2	Bell Atlantic $1	26	-1.2	5.4	4.7	FeMyAuNv	–
13,393.3	BellSouth Corp.	27	-1.8	5.6	5.4	FeMyAuNv	–
609.3	Bethlehem Steel $8	8	-3.0	2.8	6.2	MrJeSeDe	1821
432.1	Bowater Inc	1285p	-3.0	5.6	6.6	OcJaApJy	1884
3,576.3	CPC Intnl 25c	47	0.9	2.4	25.9	JaApJyOc	2263
166.0	California Engy.	912p	7.0	–	–	–	–
5,725.9	Campbell Soup 15c	45	2.9	1.4	4.1	OcJaApJy	2050
1,346.2	Chase Manhattan $12½	10	-4.2	6.9	30.10	FeMyAuNv	2109
2,133.9	Chrysler $6¼	7	2.6	4.6	11.9	ApJyOcDe	2135
2,146.9	Citicorp $1	6	-2.0	–	23.10	–	2141
3,206.5	Colgate-Palmolive $1	24	2.4	2.5	22.10	FeMyAuNv	2184
569.9	Cont'l Bank Corp $4	564p	-3.1	6.0	31.5	DeMrJeSe	–
621.6	Dana Corp. $1	15	2.5	5.9	27.8	MrJeSeDe	2306
247.0	Data General	895p	-7.3	–	–	–	–
972.7	Dial Crop $1.5	24	-2.0	3.2	28.5	JaApJyOc	2778
5,065.6	Dun & Bradstreet $1	28	.....	4.3	13.2	MrJeSeDe	–
1,151.1	Eaton Corpn. 50c	33	1.1	3.6	2.2	–	2410
385.8	Echlin Inc	6	-0.9	5.7	1.7	JaApJyOc	3046
3,182.9	FPL Group 1c	19	-0.6	6.9	27.8	MrJeSeDe	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LONDON SHARE SERVICE

● Latest Share Prices are [illegible] charged at 36p/minute cheap rate and [illegible] ...eldet call 071-925-2128.

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUSTS

INVESTMENT TRUSTS—Contd

Net asset values supplied by County NatWest Wood Mackenzie as a guide only.

FINANCE, LAND, ETC

FINANCE, LAND, ETC—Contd

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

MINES—Contd

Australians

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed
- # Price at time of suspension
- ♣ Not comparable
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	β	635xd	0.3
Finlay Pkg 5p.	α	45	..
Holt (Jos) 25p	β	2040	0.3
Helton Hldgs.	γ	35	6.1

IRISH

Cap 8½% Ln 2010	£96	0.5
9pc Cap Ln 1996	£98½	...
Fin. 13% 97/02	£114½	0.4
Arnotts	180xd	...
IRG	123½	...
United Drug	170	...

TRADITIONAL OPTIONS

3-month call rates

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions:

Adam & Harvey (Section: Industrials)
European Motors (Motors)
Gartmore Scotland Inv. Income (Trusts)
Do. Capital (Trusts)
Do. Units (Trusts)
Do. Zero Div Prf (Trusts)
Liberty Life of Africa (Insurances)
Mount Martin Gold (Mines)
Vtech (Electricals)

Deletions:

Goring Kerr (Electricals)
Hughes Foods (Foods)
Scottish Cities Inv. Trust A (Trusts)
TACE (Engineering)

4:00 pm prices November 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	9¼	AAR Corp	0.48	3.6	18	522	13⅝	13¼	13¼	-⅛
22⅞	14½	A L Labs A	0.16	0.7	34	692	22¼	21⅞	21⅞	-¼
55¾	40⅞	AMP Inc	1.44	2.7	90	992	53⅝	52⅝	52⅝	-1
68⅝	44¼	AMR				113458	63¼	60	60⅛	-2⅜
2⅝	1	ARX			1	16	1¼	1¼	1¼	
66	41½	ASA x	3.00	6.3		131465	47⅞	45⅞	47½	+1
61⅞	39¼	Abbott Lab	1.00	1.7		235080	60⅝	57¼	57¼	-3½
14⅝	9⅞	Acklands Pr	0.50	3.7	25	49	13⅝	13⅝	13⅝	-⅛
11⅝	10⅞	ACM Gvt In x	1.26	11.4		410	11	10⅞	11	
9¾	8¾	ACM GvOpp x	1.01	10.5		172	9⅝	9½	9⅝	+⅛
9½	8¾	ACM Gvt Sp x	1.01	11.1		460	9¼	9⅛	9⅛	
11	9⅞	ACM Gvt Se	1.26	12.0		1157	10⅝	10½	10½	
9	7⅝	ACM Man x	1.01	11.7		1138	8¾	8½	8⅝	-⅛
12⅞	11½	ACM Managd x	1.35	10.6		138	u12⅞	12¾	12¾	
7½	4¾	Acme Cleve	0.40	6.5	16	41	6¼	6⅛	6⅛	-⅛
6	3⅞	Acme Elect			42	45	5⅛	4⅝	4⅝	-⅜
40	22¾	Acuson			85	715	36⅞	35¼	35¼	-1⅛
20¼	14¼	Adams Expr	0.73	3.6	1	206	u20¼	20	20	-⅛
20⅛	17½	Adobe 12Pf	2.40	12.6		43	19	19	19	
9¼	6⅝	Adobe Res			46	298	7¼	7	7	-¼
38⅞	18	Ad Micro				20	37¼	37	37	-⅜
14¼	4⅝	Ad Micro P	3.00	24.0		968680	13½	12¼	12½	-1¼
5⅛	2¼	Advest Grp	0.16	3.6	6	297	4⅝	4⅜	4⅜	-⅛
48⅛	31⅞	Aetna Lf	2.76	7.2		369454	39⅝	38⅛	38½	-3
10⅜	6⅝	Ahll A x	0.24	3.0	52	752	8¼	7⅞	7⅞	-⅛
20⅞	12	Ahmanson x	0.88	5.6		103901	16⅛	15¾	15¾	-½
18⅞	2⅞	Aileen Inc			17	261	u18⅜	16⅞	16⅞	-1½
74⅛	51⅞	Air Pr Chm	1.58	2.3	15	504	71½	68½	68½	-3⅛
30	16⅝	Airbne Frt x	0.30	1.4		531415	22⅞	21½	21½	-1¼
22	12½	Airgas Inc			78	436	u22½	21	21¼	-⅜
15¼	10	Airlease	1.68	14.6	6	43	12	11½	11½	-½
100½	88¼	AlaPw8 16 x	8.16	8.2		4	u100½	99	99	

Continued on next page

حكمة امين الحول

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
37	25	SafetyKln x	0.32	1.1	27	759	28⅞	28¼	28¼	-¼
21⅞	11⅞	Safeway				131232	18¼	18	18	-⅛
4⅞	2⅜	SafewayWt				142	4	3⅞	3⅞	
35⅞	26⅞	StJoePaper	0.20	0.6	229	58	32⅛	32	32⅛	-⅛
34¼	26⅝	StJoeL&P	1.68	5.4	12	23	31¼	30⅞	31	
74¼	67	St Paul's x	2.60	3.9		1561	68	66¾	66¾	-1
4¼	1½	Salant Crp			0	z100	2½	2½	2½	
69¾	43⅝	Sallie Mae	0.80	1.4	17	1121	59⅞	57⅞	58⅛	-1⅛
14¼	10⅝	Salomon Br x	4.04	29.8		1665	14⅛	13⅝	13⅝	-½
37	20¾	SalomonInc	0.64	2.3	64	170	28	27⅞	28	-1
45¾	37¼	SanDgo G&E	2.80	6.4	47	516	43¾	43¼	43½	+⅛
4⅞	2¾	SantaFeEDv	0.50	16.0	62	31	3⅛	3	3⅛	-⅛
16¾	10⅛	SantaFeERs	0.16	1.4	27	925	12⅛	11⅝	11⅝	-½
35¼	25	SantaFePac	2.80	8.2	10	268	34⅛	34¼	34¾	+⅜
12¼	5⅛	SantaFeSth x			17	84445	11⅝	10⅝	10⅝	-1
50	29⅝	Sara Lee x	1.24	2.6	28	2949	49⅝	48¼	49⅛	-1⅛
¼	⅛	Savin Corp			0	2194	0.08	d⅛	⅛	
7⅞	1¾	Savin 0.60	0.60	33.7		35	2½	2⅛	2⅛	-¼
41½	33½	Scana Corp x	2.62	6.4	9	180	41⅛	40¾	40⅞	-⅛
45⅞	35	Scecorp	2.72	6.0	12	2069	u45⅞	45	45	-⅛
65⅝	40⅞	SchoringPl	1.32	2.1	21	6162	64⅞	61½	61½	-2½
74	50½	Schlberger x	1.20	1.9	23	9917	66½	64	64	-1⅞
38⅛	11⅞	Schwab(C)	0.24	0.7	27	387	37⅞	36⅛	36⅛	-1⅛
8⅞	3⅞	Schwitzer			81	131	8⅛	4⅞	4⅞	-⅛
17⅞	11½	ScientAtln x	0.16	1.1	148	255	15¼	14⅞	14⅞	-¼
9⅞	6	Scotsman	0.10	1.2	32	163	8½	8⅝	8⅝	-⅛
46⅝	35⅛	ScottPaper x	0.80	2.3	36	1602	35⅝	d35	35	-⅝

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Telekurs.

NYSE: The figures in the Yield column have been adjusted to show yield %.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

AMEX COMPOSITE PRICES

4:00 pm prices November 15

NASDAQ NATIONAL MARKET

November 15

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

MONDAY INTERVIEW

Bridge from west to east

Kurt Biedenkopf, prime minister of the German Land of Saxony, talks to **Andrew Fisher**


Ralf Brunn

'People here are having to deal with huge changes'

There are not many politicians who inspire a great deal of respect and hope in east Germany these days. Foremost among those who do is certainly Mr Kurt Biedenkopf, the energetic and provocatively outspoken prime minister of Saxony.

While not shy of spelling out the harsh facts attending east Germany's struggle towards the free market, he is surprisingly popular, and not just in Saxony. Indeed, he has lately become one of the most respected politicians in the whole of Germany at a time when the ruling coalition in Bonn – led by the Christian Democrat Union (CDU) to which he belongs – is undergoing a decline in the polls.

Part of the reason for this is that Mr Biedenkopf, an independent-minded politician who has a long history of not seeing eye to eye with Chancellor Helmut Kohl, has been closer to the mark in predicting the costs and traumas associated with German unification than has Mr Kohl himself. He has consistently stressed that bringing the east German economy more into line with the west's would be more expensive and take longer than the Chancellor suggested ahead of the first all-German elections last year.

Mr Biedenkopf believes that understating the magnitude of the upheaval was a serious mistake. Now, as the full economic and social impact of unity is emerging, Bonn politicians in general are reaping the reward in the form of an increasingly sceptical attitude towards them throughout east Germany.

"He [Mr Kohl] should have told the people that the economic strength and prosperity built up over 40 years [by West Germany] was not an end in itself, but should now be used to overcome the division of Germany and Europe," says Mr Biedenkopf. Instead, the Chancellor reacted to opposition barbs about the cost of unity by giving the impression that no one would be worse off in the east and promising that west Germans would not have to pay higher taxes.

In the event, taxes were raised and many voters are now resentful. Mr Biedenkopf does not only blame Mr Kohl. "He was badly advised," he states baldly. Now, as the difficulties mount, the government has to be careful not to contradict what it said last year when denying the need for higher taxes. "This deficiency [in political argument] will have an impact for a long time. What could have been achieved through an emotional appeal last year is now having to be dealt with by rational argument."

Mr Biedenkopf may sound self-satisfied, and he is certainly content with his new status as the adopted father of Saxony. Seated in his large office overlooking the River Elbe in Dresden, he speaks calmly and deliberately, presenting his arguments with logic and precision. He is assertive rather than emotional, as befits a professor of law.

"People here are having to deal with huge changes," he says. "The legacy of 45 years of the planned economy has to be overcome."

These changes may be hard for west Germans to grasp but he expects understanding to grow as people in Germany mix and travel more. "Germany has never been homogeneous," he points out. He recalls his parent's feelings when they moved from Ludwigshafen on the Rhine eastwards to Merseburg in Saxony-Anhalt, next to Saxony. "They thought it was like going to Siberia. It was a completely different part of Germany." After four decades of political division, the differences of east and west remain marked. Mr Biedenkopf is one who is trying to help narrow them.

It is his mixture of frankness and optimism which has struck a chord among east Germans and is likely to be a strong asset as he gets to grips with narrowing the gap between east and west. As the first west German politician to become premier of one of the recreated eastern states, he is not just a carpet-bagger. Shortly after the border was opened two years ago, he took up an academic post in Leipzig, also in Saxony. This early commitment stood him in good stead during the state elections; with no home-grown candidate of any political stature, he was an obvious choice for Saxony's fledgling CDU.

No other leading west German politician has taken on such a big political role in east Germany. This return to prominence is particularly ironic in Mr Biedenkopf's case, since he fell out with Mr Kohl in the 1970s because of his tendency to criticise CDU policy when the party was in opposition. He was thus consigned to the political backwoods after being general secretary of the CDU. Now, Mr Biedenkopf has bounced back with a vengeance, putting Mr Kohl's nose considerably out of joint by becoming Saxony's prime minister in October last year.

Relations between the two remain strained. For Mr Biedenkopf, the premiership of Saxony is a chance to make a lasting contribution to the politics of united Germany at a late stage in his career. He has given no sign of wanting to move to a bigger national platform. At the age of 61, he seems to view his role in Saxony as a political swansong.

If the fulfilment of this task means contradicting the Chancellor – he has lost none of his penchant for doing this – then he will.

Mr Biedenkopf has no illusions about the scale of the challenge still facing east Germany. "The whole economic structure has to be renewed. Companies are having to shed about two-thirds of their workers, often more." New jobs are being created, as with Volkswagen's car assembly plant in Saxony, but such investments take time to develop.

Nevertheless, he is not prone to gloom about the longer-term prospects. Since almost everything has to be built anew – the communists bequeathed a rundown industrial infrastructure – Saxony should eventually have a modern economy.

Indeed Saxony has perhaps the best chance of all the new German states to pull itself out of the economic mire. Saxony has so far attracted 36 per cent of all new investment in east Germany. It has a strong industrial tradition: after world war one, as Mr Biedenkopf says, per capita gross domestic product was the highest of any German region. With Bavaria, it was one of the first regions to have been organised into a proper state, and its people have the same strong sense of their own identity.

The people of Saxony are already showing more private initiative after 40 years of being told what to do, with 70,000 applications to start new businesses made in the state this year. Many of these are small and about 18,000 others have already closed. Even so, Mr Biedenkopf expects the net figure to be about 60,000 for the year, "which is a good start".

Mr Biedenkopf believes the old communist system was doomed to collapse in any case. "Unity was possible because of the system's inner weakness. It had stagnated since the 1970s and was kept above water only by exploitation of the capital stock, of the population, and of nature. But every exploitation comes to an end, since there is nothing left to exploit."

He points to a piece of old telephone exchange equipment standing in the corner of his office like an unusual art object. "This was made in 1922 and was still in use until half a year ago. It is antique. Now, it has been replaced by the most modern digital equipment."

The human changes are proving just as abrupt, though the effect on people's morale is hard to measure. Nevertheless, he is confident that the very prospect of improvement will act as a spur, citing a recent poll showing that while west Germans were now slightly more pessimistic about the near-term future, Saxons expected a marked improvement. He forecasts that by 2000, east Germans will enjoy a standard of living equal to roughly 70 per cent of that in west Germany – "you can't expect more".

However, it will take more than being freed from the iron rule of East Berlin to restore Saxons' prosperity. "The problems are huge. But they have been absorbed without significant social or public turbulence in a way you couldn't ask of people in west Germany. There will certainly be difficulties such as strikes. Such a huge stress in such a short time, amounting to a radical change in people's way of life, is bound to cause eruptions."

An unpleasant side-effect of the strains caused by unity has been the violence against foreigners, though there has also been plenty of such violence in west Germany as well as east. Mr Biedenkopf defends the Saxon town of Hoyerswerda, where the most publicised demonstration took place. "There were no injured and no dead, but things did get out of control." Both the police and the local authority made mistakes, he agrees.

Coping with such social strains is part of the challenge that Mr Biedenkopf has taken on. His fervent hope is that the present incipient signs of economic improvement will turn into a vigorous upturn.

PERSONAL FILE

1930 Born Ludwigshafen.
1958 Doctor of Law, Frankfurt.
1963-71 Lecturer, Frankfurt University.
1971-73 Director, Henkel chemicals group.
1973-77 CDU general secretary.
1977-87 CDU chairman for North Rhine-Westphalia.
1990 Prime minister of Saxony.

The credit crunch as scapegoat

MICHAEL PROWSE on America

The tumble in US share prices on Friday was more than justified by the deteriorating economic outlook. We know October was a bad month for the economy: employment, production and retail sales all failed to grow. If anything, November looks worse. Car sales fell sharply in the first 10 days while preliminary data indicate a 10 per cent fall in the University of Michigan's index of consumer sentiment. If weak confidence translates into lower spending, retailers will have an awful Christmas season – and gross national product could turn down again.

Why is the economy doing so poorly six months after the supposed end of the recession? If top Washington policymakers are to be believed, stagnant growth largely reflects an unprecedented "credit crunch". Banks are criticised for not lending to creditworthy borrowers and for failing to reduce interest rates – especially on credit cards – in line with the rates directly administered by the Federal Reserve. Youthful bank examiners are berated for compounding problems by taking an unduly short-term view of the value of depreciating assets, especially commercial real estate.

Policymakers have an incentive to talk up the credit crunch. Mr Alan Greenspan, the Fed chairman, testifies before Congress this week; if blame had not been shifted to bankers and regulators in the field, he might be pressed to explain why he permitted the monetary aggregates to undershoot so badly this year. The credit crunch provides equally valuable cover for Mr Michael Boskin, the White House chief economist, who failed to warn the president that the economy would turn sour.

But is the credit crunch more than a convenient scapegoat? The only point of agreement among economists is that bank lending has been unusually weak. In a recent paper, Mr Ben Bernanke of Princeton University and Ms Cara Lown of the New York Fed point out that total loans contracted at an annual rate of 3.6 per cent in the three quarters following the peak of the business cycle last year. This was indeed unprecedented: at the same stage of the previous five downturns, some of which were deeper, loans grew by between 3.5 per cent and 12.2 per cent. The difficulty, however, lies in deciding whether the contraction mainly reflects weaker than usual demand for credit or genuine constraints on supply.

The authors refuse to heap blame on the hapless bank examiners. They may have made life horrible for some lenders but had regulation been a big factor nationally, loan-loss reserves and charges against capital would have jumped at the point when examiners suddenly began to clamp down. The paper finds little evidence of such a spike: loan-loss allowances appear to have gradually trended higher since the early 1980s.

Mr Bernanke and Ms Lown are comfortable with only one supply-side argument: the "capital crunch" thesis emphasised by Mr Richard Syron, the Boston Fed president. Mr Syron has argued that a collapse in New England real estate prices forced banks to write down loans, thus depleting their equity capital. At the same time, the new Basle capital adequacy rules raised the required ratio of capital to assets. Banks were thus forced to sell assets and scale back lending.

Bank capital declined by a quarter in New England between 1988 and 1990, but was flat or expanded in every other region. The "capital crunch" thesis thus helps explain why the contraction of lending in the 1990-91 recession was so regionally concentrated: in New England bank lending fell at an annual rate of 13.8 per cent in the three quarters following the last business cycle peak. In mid-Atlantic states, the only other region to experience a significant contraction of bank lending, loans declined at an annual rate of only 2.1 per cent.

The relative importance of capital shortages, however, is unclear: the New England economy was generally much weaker than other regional economies. Mr Bernanke and Ms Lown's detailed calculations indicate that the shrinkage of bank equity accounted for only a few percentage points even of New England's precipitous drop in lending. A fortiori, the effect was weaker still in other parts of the US.

The Bernanke and Lown study does not include data for the most recent months. It could thus understate the importance of recent restraints on credit supply. But abstracting from the problems of particular sectors and regions, it seems plausible that weak credit growth mainly reflects weak demand for credit. If the aggregate supply of credit were being restrained relative to its demand, the price of credit – interest rates – ought to be rising rather than falling. If banks had a bigger capital cushion, the spread between what they charge for funds and what they pay for deposits would certainly be smaller, but the economy might not be that much stronger.

So why is demand for credit so weak? The fundamental reason is that the US economy is undergoing a painful adjustment after a borrowing spree in the 1980s that left everybody – government, companies and consumers – over-geared. Republican administrations' failure to keep domestic demand and supply in reasonable balance resulted in the kind of boom-bust cycle that was commonplace in the 19th century. The difference is that the bust phase is being spread over several years. The credit crunch is a fine phrase, but its main purpose is to divert attention from those really responsible for today's mess: Washington policymakers.

JOTTER PAD

CROSSWORD

No.7,701 Set by PROTEUS

ACROSS

1 Make a note of someone's criminal statistics (6)
4 Does he hope to become an artist without paints? (8)
10 Carriage taking bird round city (7)
11 Throw red dice to eliminate one contender (7)
12 Save a little bit of meat (4)
13 Plant ensuring tranquillity at school (4,6)
15 Noise to fluster a conductor (6)
16 Uncivil and badly presented bill on colour (3-4)
20 Australian food about right for lorry-driver (7)
21 Ruffles giving rise to French complaints (6)
24 Teaching aid provided by non-white committee (10)
26 Fixed stake from one to ten perhaps (4)
28 He does not take the Bible literally or sport with it perhaps (7)
29 Mushroom pieces man swallowed (7)
30 Shakespearian regarded as bog-trotter in part of Ireland (8)
31 They engage in bets (6)

DOWN

1 Gets better and obtains some compensation (8)
2 Letter to personality in play (9)
3 Bird at the bar (4)
5 Some of the accused ate lychees in composed fashion (8)
6 Where crossword solvers may find legal assistance? (2,8)
7 A theologian about to go up to snake (5)
8 Kingship said to be cast away (6)
9 Animal guide (5)
14 Weapon used to impose cuts on film industry? (5-5)
17 Sweet-brier twining in elegant manner (9)
18 Journalist giving soldier drink (8)
19 Judges letter about animals (8)
22 Grew less like a model in a bed (6)
23 Confines to bed on Sabbath (5)
25 In the middle of some dream on gliding (5)
27 Girl falling in love rarely (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 30.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

[illegible]	[illegible]	[illegible]

NGC Settlements Limited

BASE LENDING RATES

[illegible]	[illegible]	[illegible]

Thorny issue of naming names

JUSTINIAN

Why is it that people prominent in public life should find it impossible to defend themselves, either in the courtroom or by way of a public statement to the media, against serious allegations made by a witness in a criminal trial in which they play no part?

The identification by the media of a prominent public figure at a current trial at Leicester Crown Court illustrates the adverse, and perhaps devastatingly permanent, effect of this anomaly.

The impact of media identification of the public figure in this particular case is hardly minimised by the prosecuting counsel announcing that the witnesses' allegations were a red-herring and that: "X is not on trial here: the prosecution are not here to defend X". (The lettering is supplied to make the point of anonymity.)

This latest outcrop of media law focuses on the general question of anonymity in the court-room. Legal constraints on the media identifying anyone named in the course of court proceedings are extremely limited. Apart from protecting victims in a rape case and the power of the courts to direct that no newspaper report shall identify a child or young person concerned in legal proceedings, there are precious few powers in the court to make orders affecting the press or other media in their conduct outside the court.

The court's power in the Contempt of Court Act 1981 to postpone publication of any report of proceedings is limited to those cases where it is necessary in order to avoid a risk of prejudice to the administration of justice to those proceedings. A court is unlikely to invoke that power to protect the privacy of a person unconnected directly with the court proceedings. The court has, however, protected the anonymity of persons who have given evidence in a trial, for example, the identity of an informant or a witness who reasonably fears reprisals.

But this is a questionable exercise of the power to forbid publication, not indefinitely but only for a limited period. The persistent fear that any prohibition on reporting by newspapers might plunge editors into "a frightening world of justice administered behind a lock and key" has resulted in a natural and sensible reluctance on the part of judges to use their powers, whether formally or informally.

Judges do occasionally request the press to exercise self-restraint and to refrain from identifying someone named in court proceedings. The reluctance to exhort a self-denying ordinance on the part of journalists is understandable enough. But the licence to the press generally to name names is not matched by any corresponding licence necessarily to the named. Any public denial of an allegation made in the course of a trial would expose the denier to contempt of court. Are journalists aware of such unequal opportunity to exercise the citizen's freedom of expression?

The main objection to the suppression of identities in court reporting is that it would be contrary to the principle of open justice, fundamental to our legal system. A few exceptions are conceded, however, in the case of committal proceedings (for fear that reporting might prejudice the conduct of the subsequent trial) and court proceedings affecting children and young persons.

Over the years, there has been a continuing debate on the issue of unwanted publicity by way of media coverage of court proceedings which has extended even to those charged with, or convicted of, minor offences in magistrates' courts.

The argument has been that the reporting of names of individuals in minor cases before magistrates' courts has become a haphazard way of adding punishment on offenders. Local newspapers experience difficulty in covering magistrates' courts adequately, if sometimes at all. An element of chance undoubtedly determines whether or not some offenders receive publicity; it all depends on the presence of a reporter in the courtroom at the particular time.

The 1977 Royal Commission on the Press, under the chairmanship of Lord McGregor (now chairman of the Press Complaints Commission, the successor to the Press Council), was divided on the issue. However, it still unanimously recommended as a matter of urgency the setting up of a committee by the government to consider the rights of the citizen to anonymity in the reporting of court proceedings. A decade and a half later nothing has happened, although the issue surfaces publicly from time to time.

In most west European countries, the press has adopted voluntary codes under which the identities of persons involved in criminal proceedings are not published. Had the Press Council survived, the case at Leicester Crown Court would, when completed, have probably prompted a general inquiry. Will the Press Complaints Commission, in spite of its self-denying ordinance to do anything other than respond to complaints from victims of breaches of the journalists' Code of Practice, examine the question?

If not, a gross injustice to one public figure will go unremedied, and the public will blame the press. At a time when the newspaper industry is on probation, following the Calcutt Committee's recommendation that a failure by the industry to mend its ways by mid-1992 would lead to statutory intervention, the incident will count heavily against the press.

The government's willingness, therefore, to allow self regulation to continue will be in jeopardy. A commitment now by the industry to examine the whole question of anonymity in court reporting would do much to lessen the impact of a public charge of press irresponsibility.

Louis Blom-Cooper QC